AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

Mozambique Country Strategy Paper 2018 -2022

SUPPORTING MOZAMBIQUE TOWARDS THE HIGH5S

RDGS

June 2018

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List of Abbreviations

ADF	African Development Fund
AfDB	African Development Bank
AWF	African Water Facility
BoP	Balance of Payments
CBP	Country Business Program
COMZ	Mozambique Country Office
CPIP	Country Portfolio Improvement Plan
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
DP	Development Partners
ENDE	Estratégia Nacional de Desenvolvimento (National Development Strategy)
EU	European Union
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
FRELIMO	Frente de Libertação de Moçambique (Mozambique's Liberation Front)
GBS	Global Budget Support
GoM	Government of Mozambique
HDI	Human Development Index
IOF14	Survey of Families Income 2014-2015 (Inquerito ao Orçamento Familiar)
IMF	International Monetary Fund
INE	National Institute of Statistics
NCB	Non-Concessional Borrowing
PAF	Performance Assessment Framework
PAP	Programmatic Aid Partners
PBA	Performance-based Allocation
PES	Plano Económico e Social (Economic and Social Plan)
PFM	Public Financial Management
PQG	Plano Quinquenal de Governo (Five-year Governmental Plan)
RISP	Regional Integration Strategy
SCPZ	Staple Commodities Processing Zones
SME	Small Medium Enterprises
TAAT	Technologies for African Agriculture Transformations
TVET	Technical and Vocational Educational Training
TYS	African Development Bank Ten Year Strategy 2013-2022
UA	Units of Account

Key Milestones

Issues Paper Country Team	June 4th , 2015
Mission Period	June 15th – June 23rd , 2015
CODE Strategic Discussion	September 26th , 2017
CSP Country Team meeting	December 21st , 2017
OpsCom Date	April 12th , 2018
Board Date	June 29th, 2018

Currency Equivalents

(May 2018)

Currency Unit	=	Mozambique Metical (MZN)
UA 1.0	=	MZN 85.83
UA 1.0	=	US$ 1.44
UA 1.0	=	EUR€ 1.19
US$ 1.0	=	MZN 59.68

Fiscal Year

1 January – 31 December

Map of Mozambique

EXECUTIVE SUMMARY

1. The African Development Bank Group's Country Strategy Paper (CSP) 2018-22 for Mozambique comes at a time when the country adopted its long term development strategy 'ENDE' 2015-35. The CSP was prepared on the basis of extensive consultations held with the Government of Mozambique, Development Partners, the private sector and the civil society. The main objective of the ENDE is the improvement of the livelihoods of the population through the structural transformation of the economy, and the expansion and diversification of national production. The strategy is to be implemented through the 5-Year Government Programs (PQGs). The PQG goal for 2015-19 is to increase employment, productivity and competitiveness to improve living conditions of Mozambicans, in an environment of peace, harmony and tranquillity, while consolidating democracy and inclusive participatory governance.

2. **The new CSP 2018-22 pillars are: (1) Development of infrastructure to enable transformative inclusive growth and job creation;** and **(2) Support to agricultural transformation and value chain development.** The previous CSP 2011-2015 focused on Infrastructure and Governance. The CSP 2011-15 Completion Report and the 2015 Country Portfolio Performance Review were approved by CODE in September 2016, registering the good achievements of the strategy. However, CODE required a refinement of the new strategic proposal to cater for the rural poverty and agriculture potential in the country, the considerable infrastructure gap, as well as the natural resource wealth of Mozambique. Following CODE's discussions and consultations with stakeholders, the pillars of the new CSP 2018-22 have been articulated around Energy, Transport and Agriculture, thereby contributing to the Light Up and Power Africa, Feed Africa, and Integrate Africa High5s. Areas of special strategic emphasis of the CSP are Governance, Climate Resilience and Gender equality. Governance and Gender are to be mainstreamed in all the Bank's operations, while particular focus will be placed on the management of natural resources. The Bank's indicative lending program takes into account Mozambique's limited ADF-14 allocation of UA 56.3 million. Therefore efforts will be placed on mobilizing and crowding-in additional resources, notably by co-financing both from global development and thematic financing mechanisms, as well as the use of the new financial instruments that can attract the Private Sector. In addition, given its current position within the Harmonized List of Fragile Situations, Mozambique could potentially benefit from the Bank's Transition States Facility.

3. The CSP 2018-2022 will address the country's overarching development challenge of pervasive poverty and inequality, notably in rural areas where most of the population live, dependent on subsistence agriculture and disconnected from the centres of growth. Accordingly, the CSP's main objective is to boost and accelerate the country's structural transformation with a view towards creating the necessary jobs required to effectively and sustainably reduce poverty and inequality. Therefore, the CSP will support the creation of an enabling business environment that is more competitive to incentivize and dynamize the private sector through investments in energy and transport infrastructure, which also open-up access to local and regional markets. This will be complemented by direct Bank support to businesses with the potential to engage in higher value-added, transformational productive economic activities and to create formal wage employment, as well as by skills development of the work force and strengthening of the entrepreneurial fabric to reduce regional and gender disparities. The CSP will also aim to transform agriculture, develop agro-businesses and support agro-preneurs through the creation and integration of SMEs in value-chains and high value-added activities, including the establishing of linkages to the extractive sector and harness the opportunities provided by natural resources, while mainstreaming governance best practices across sectors.

4. The main innovations of the CSP consist in its focus on structural transformation and industrialization and in tackling key fragility vectors by reinforcing climate, social, as well as economic resilience. The CSP will promote sustainable infrastructure, sustainable natural resources management, and address spatial inequalities by promoting rural economic development where poverty is pervasive, with an emphasis in the Northern regions where development needs are higher. In a constrained financing framework (Mozambique is not eligible to access ADB sovereign window), the Bank will focus on innovative approaches and on leveraging additional funds from other donors or private investors, seeking to tap into co-financing facilities. The use of innovative de-risk and credit enhancement instruments (e.g. Partial Risk and Partial Credit Guarantees), blended finance, Public-Private Partnerships (PPP) as well as climate funds to complement ADF resources to invest in climate resilient agriculture, sustainable infrastructures and renewable energy will be a key element of this strategy. The Bank will consider innovative project designs such as Result-Based Financing that can encourage innovative reforms practices and facilitate partnerships with other donors. A further innovation will be the systematic mainstreaming of governance in all Bank operations by focusing on improving sector governance. Similarly, gender equity will be mainstreamed: gender analysis will be systematically undertaken during the preparation of each new project, and specific components targeting women will be included where feasible. Special consideration will be given to strengthening the capacity of sector ministries and agencies for mainstreaming gender. Also, priority will be given to mainstreaming climate change resilience issues in projects, as well as to projects that promote regional integration. Furthermore, following the "Hidden-Debts" case, dialogue between the GoM and DPs has been limited, while the country's financial situation has deteriorated. Building on its experience the Bank can have a pivotal role in facilitating in-country dialogue and aid coordination. Support to policy dialogue, notably on crucial issues such as debt sustainability, will assist the country re-establishing its creditworthiness that in the long-term would open access to the ADB window. Support will be provided through advisory services and knowledge products for policy reforms in macroeconomic management, management of natural resources and resource mobilization.

5. The CPPR concluded that overall portfolio performance remains positive, with an overall score of 2.72 (on a scale of 0 to 4). The average age of the portfolio is 5.2 years and the average disbursement rate is 45%. However, to improve the quality of the portfolio there is a need to address the main challenges related to delays in first disbursement and delays in counterpart finance disbursement, including VAT refunds to suppliers. As of December 1st, 2017, the Bank's total portfolio consists of 19 national operations amounting to UA 459.2 million. Seventy-one percent of the portfolio is infrastructure financing, while Agriculture sector represents 14.4% and the Power sector 9.7%. The portfolio is largely funded by ADF loans (80.9%), ADB non-sovereign (7.3%) and other funds (11.8%).

6. The Boards of Directors are invited to consider and approve the 2018 – 2022 CSP.

1. INTRODUCTION

2. **This report proposes the Bank Group's Country Strategy Paper (CSP) for Mozambique for the period 2018-22.** It comes at a time when the country adopted its long term development strategy 'ENDE' 2015-35. The preparation of the CSP also coincides with the Banks's renewed effort to step up the implementation of its Ten Year Strategy through a sharper focus on the High-5 priorities. On 26th September 2017 the Bank's Committee on Operations and Development Effectiveness (CODE) considered and approved the Note on the Selection of pillars for the proposed CSP 2018-22 CSP 2018-22: **(1) Development of infrastructure to enable transformative inclusive growth and job creation;** and **(2) Support to agricultural transformation and value chain development.** CODE welcomed the proposed pillars, but also expressed the need to be selective in face of the limited resources, and mainstream governance across pillars.

3. **Following this Introduction, the rest of the report is structured as follows. Chapter II discusses the country context and presents recent political, economic and social developments.** Chapter III outlines the country's strategic framework, the weaknesses, challenges, strengths and opportunities, as well as the lessons learned from the previous CSP. Chapter IV presents the Bank Group's Strategy for Mozambique for the 2018-22 period. Chapter V presents the conclusion and recommendations.

2 COUNTRY CONTEXT

4. The following sections *summarize* recent developments in Mozambique's country context and provide a short-term outlook. A detailed analysis of these developments is presented in Annex VI – Country Contextual Analysis.

2.1 Political Context

5. **Multi-party elections took place for the first time in 1994, following 15 years of civil-war, but the FRELIMO party is in effect ruling since independence in 1975.** However, political stability has been challenged since the armed conflict between the government and the RENAMO opposition party reignited in 2013, and led to the latter not recognising the result of the 2014 elections. A cease-fire was achieved in December 2016. Talks of a permanent peace agreement between the President of the Republic and RENAMO started in August 2017 and represent a significant landmark in the peace process. A Constitutional review was agreed between both parties, allowing for a further decentralization of powers. However, RENAMO's president died from illness on May 3rd 2018, casting further uncertainty over the peace process. In addition, the attempts to find a sustainable political settlement are taking place against an uncertain economic outlook (see §7). Two years after the disclosure in 2016 of debt contracted without the required legal procedures (the so-called Hidden-Debts case; see **Erreur ! Source du renvoi introuvable.**), the Government is preparing a roadmap to address these liabilities and tackle the unsustainable debt position. Most options for resolution are likely to include a new IMF program, since then cancelled. With the 2019 Presidential election on the horizon, the challenging fiscal situation (see §10) could limit the financial and political resources available to complete the process to achieve a conclusive sustainable peace settlement, which might require constitutional reforms.

6. **The Hidden-debts case is symptomatic of the country's governance vulnerabilities, while international benchmark indicators and surveys suggest that corruption represents a challenge in Mozambique.** The country's performance in the Transparency International Corruption Perception Index leaves considerable room for improvement, with a ranking of 142th out of 176 countries, and a score of 27/100 in 2016. Mozambique is also ranked low in the Mo Ibrahim Index of African Governance: 23rd out of 54 countries with an overall score of 52.2 in 2017. The Bank's Country Policy and Institutional Assessments (CPIA) present a negative trend

in recent years, including for the Governance cluster. The 2017-18 Global Competitiveness Report business survey places corruption as the 2nd most problematic factor for doing business. The Bank conducted an update of the Country Fiduciary Risk Assessment (CFRA) as part of the CSP identification mission. The overall fiduciary risk is assessed as *substantial*, with a negative trajectory of change despite efforts made as also alluded to in the latest PEFA Report published in 2016. The Bank will adopt a gradual approach on the use of existing systems (see Annex XII – 2017 Country Fiduciary Risk Assessment). The Bank will continue to work with the Government and Development Partners to enhance procurement reform in the country to address identified risks arising from the assessment of the country procurement system (see summary of main issues identified with the country procurement system at Annex XV – Assessment of Country Procurement System).

Box 1 - The Hidden-debts case

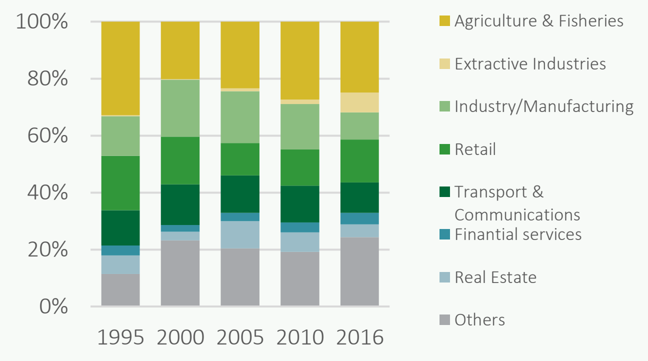
On April 2016, the GoM acknowledged the existence of lending operations hidden from the public, partners and the IMF amounting to USD 1.4 billion. These operations are over and above the USD 850 million EMATUM bond issuing, which was revealed in late 2013. The operations were done by private companies fully publicly owned, including by the Defence Ministry. Including the EMATUM bond, later swapped for a full sovereign Eurobond issuing – the MOZABOND – the total off-budget operations reached USD 2,228 million (upward of 15% of 2015 GDP). The Government alleged that USD 1,878 million were allocated to defence expenditures, while USD 350 million were invested in the EMATUM fishing operation. The operations violated the budget law and the legal threshold for guarantees provided by the Ministry of Finance, and circumvented the otherwise relatively structured country public financial management systems. A Parliamentary Inquiry Commission and the General Attorney Office deemed the guarantees illegal. The companies defaulted on the loans, but the sovereign guarantees for the Proindicus and MAM loans are yet to be called by creditors. The IMF cancelled its Standby Credit Facility, while the partners suspended budget support. An independent forensic investigation into the 3 companies led by the international audit firm Kroll was requested by the PGR in a coordinated effort with the IMF, with the financial support of Sweden. The audit public report found that nearly USD 1.2 billion (55% of the loans net proceeds) remain unexplained or unaccounted for after the audit conclusion. In March 2018 the IMF concluded an Article IV consultation together with a Debt Sustainability Analysis which deemed Mozambique in a "debt distress" situation. In the same month, the Government started discussions with creditors, for a rescheduling of the commercial debt. The IMF Article IV report highlighted the importance of fiscal consolidation to complement a debt rescheduling deal with creditors and allow a normalisation of the very high levels of interest rates. The Article IV report also lays out a set of Governance reforms, some of which are being implemented by the Government.

2.2 Economic Context

Economic Structure

7. **Mozambique is a Low Income Country with a Gross National Income per capita of only USD 460 dollars[1] despite impressive growth for almost 2 decades, ranking the country 44th out of 54 African countries.** Following the adjustment to a market economy starting in 1994, the structure of the economy has remained by and large unchanged since 2000[2] (see Figure 1), with little structural transformation, registering even a slight de-industrialization (save extractive industries) and featuring a narrow export base and limited integration into global value chains. The Agriculture and Fisheries sector's share of GDP stood at 24.9% in 2016, compared to 20.1% in 2000. It employs the bulk of the country's work force (74.6%, 2015) and is marked by low-productivity subsistence-type production patterns and limited value-chains. The country is a net food importer, with 5% of total imports in 2016. Main cash-crops are tobacco, banana, cashew, and cotton. Sugar is the only meaningful processed export product. The Industry/Manufacturing sector contributes a meagre 9.6% of GDP in 2016, employs only 3% of the work force, and is dominated by the Mozal[3]

Figure 1 - Evolution of GDP composition 1995-2016



aluminium smelter project. Since 2000, the sector experienced a continued decline in its relative GDP share, from 20% to 9.6% in 2016, mainly due to continued sluggish performance of the few SMEs[4], while other sectors of the economy expanded. The Services sector's contribution to GDP increased from 54.2% in 2000 to 55.4% in 2016 on the back of public sector expansion, increased urban consumption and services to megaprojects[5]. However, the sector currently employs just 22% of the labour force. Main service sub-sectors include Wholesale and small-scale retail trade (about 12% of GDP) but with low profit margins and few opportunities of saving and investing; and Transport, storage and communication (about 11% of GDP). Since 2010, the Extractives Industries have been playing an increasingly important role in the country's economy, reaching 6.9% of GDP in 2016 (from about 2% in 2010), mainly reflecting the start of large-scale coal exports. Other relevant extractive products are titanium, graphite, gem stones and especially natural gas produced from the on-shore fields[6].

Recent Growth Performance

8. **After 18 years of average annual real GDP growth above 7%, Mozambique's economic performance has slowed down since 2015, declining to 3.3% in 2017. The outlook is modest, with growth projected to cool down further to 3.0% in 2018 and 2.7% in 2019.** Mozambique's past high GDP growth was mainly due to strong growth in Services and Extractive Industries. However, in 2015, economic performance started to slow down with a significant decrease in both Services and Agriculture growth, as several mega-projects (mainly in the extractive sector, including on-shore natural gas and coal) reached completion and the freeze in donor budget support, both resulting in decreasing demand for local inputs including services, as well as the drought (El Nino) that hit agricultural production, and a decline in commodity prices adversely affecting aluminium exports. Thus, GDP growth declined gradually from 7.4% in 2014 to an estimated 3.3% in 2017. Mozambique's growth outlook remains subdued, with growth projected to slow down further to 3.0 % in 2018 and 2.7% in 2019. Agriculture and Extractive Industries are expected to drive economic growth in the short term, benefiting from improved weather conditions and a continued expansion in mining and coal exports, supported by a further recovery in commodity prices. Key factors to watch are the hidden-debts renegotiation process between the GoM and commercial creditors, as well as a potential new program with the IMF that would improve the country's perspectives in terms of access to international development finance.

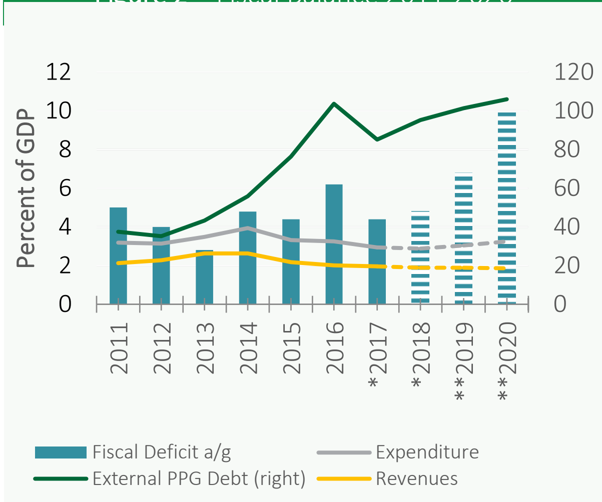
Macroeconomic Management

9. **The Central Bank has implemented a restrictive monetary policy in recent years, thereby containing inflation to 7% and stabilizing the Metical.** Tightened monetary policy implemented by the Central Bank[7] since 2016 has proved to be adequate to stabilize the currency and control inflation. Since then, and assisted by the influx of foreign currency from large coal exports, the Metical stabilized and inflation abated to 7% by end 2017 (yet still double the 2011-15 average inflation of 3.7%). Inflation is expected at 6.3% and 6.7% in 2018 and 2019, respectively. Nonetheless, credit to the private sector is to remain constrained by cautiously tight monetary policy stance, in face of mounting fiscal risks.

10. **Mozambique has incurred significant fiscal deficits in recent years, averaging 4.5% of GDP during 2011-17, undermining debt sustainability.** The GoM expanded public expenditure during the economic boom years, benefiting from lower debt and generous windfall revenues from capital gains tax[8] that curbed overall deficits (see Figure 2, p.4). The fiscal deficit averaged a comparatively moderate 3.9% of GDP during the 2011-13 period, increasing to an average of 5.0% in 2014-17. The GoM's fiscal position was further strained by the reduction of donor funding in 2016 with the suspension of budget support[9]. A closer look at the deficit reveals that total public expenditure recorded an increasing trend from 31.9% of GDP in 2011 to 39.4% in the election year 2014, before decreasing to an estimated 29.4% in 2017. Expanding current expenditures accounted

for the bulk of the increase, in particular the wage bill that increased from 8% of GDP in 2011 to 10.9% in 2017. The decrease in expenditure in 2017 was mainly due to a reduction in capital expenditure[10] from 16.4% of GDP in 2014 to 6.5% in 2017. The evolution of total revenue during the period under review largely follows that of total expenditure, yet at a consistently lower level. Specifically, total revenue recorded a continued upward trend during 2011-14, from 21.3% of GDP to 26.3%, supported by fiscal reforms and improved efficiency of the tax administration. The economic downturn led to a reduction in total revenue[11] since 2014, reaching an estimated 19.6% in 2017. With subdued economic growth, a resilient wage bill and the approaching election cycle of 2018-19, the fiscal outlook is challenging: the deficit is projected at 4.8% in 2018 and 6.8% in 2019, mainly on account of further declining tax revenue and grants, as well as increasing interest payments (debt service). Going forward, further reforms to increase the efficiency of the tax administration, the updating of customs tariffs, and the increase in auditing and oversight of fiscal benefits could yield increases in revenue. Also, controlling the wage bill, arrears management[12] and reducing the cost of deficit funding will be crucial. As regards to public debt, Mozambique is in debt distress, with overall public debt standing at 112.0% of GDP (2017)[13]. External debt increased from 37.5% of GDP in 2011 to 85.2% in 2017, breaching 4 of the 5 debt sustainability thresholds[14], while domestic debt increased from 6.2% of GDP to 26.7% during the same period[15]. The country defaulted on its sovereign bond in January 2017 as commercial debt service was considered unsustainable by the GoM[16], leading to ratings of Selective Default/Default by Fitch and Moody's. The IMF considers Mozambique in debt distress, highlighting the need for a debt strategy to be put in place that can lower debt risk to "moderate" in the medium-term, among others by building capacity in the MoF's debt management unit.

Figure 2 – Fiscal Balance 2011-2020

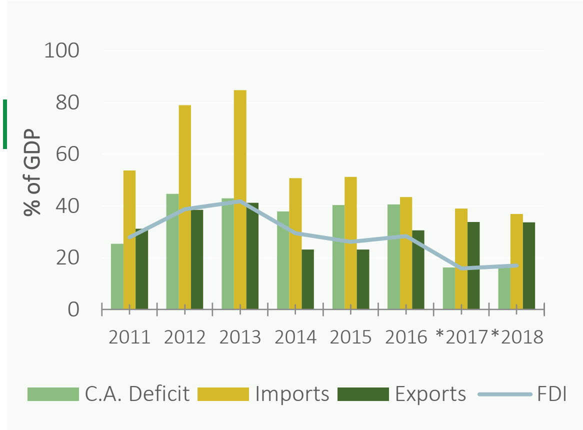


Economic and Financial Governance

11. **Mozambique continues to suffer from weak PFM system that has been identified as key drivers of fragility, resulting in insufficient domestic resource mobilization and inefficient public spending.** According to the Bank's 2017 Fiduciary Risk Assessment, the overall fiduciary risk has been assessed as substantial, with a negative trajectory of change, despite efforts made as also alluded to in the latest PEFA Report published in 2016 (for more information on PFM see Annex XII – 2017 Country Fiduciary Risk Assessment). There are noticeable achievements made[17] in the implementation of the government's Public Financial Management Reform Program (2016-19). However, significant shortcomings prevail, such as weak linkages between different planning instruments and annual budget, quality and scrutiny of internal and external audits, institutional oversight over state own enterprises, and weaknesses in public investment management. Going forward, the strengthening of the PFM system and the robustness of the governance framework, as well as the introduction of effective instruments to manage expenditure and revenues will be crucial to achieve desired social development outcomes. Following the fiscal crisis, the Government of Mozambique has undertaken a new set of reforms owed at better controlling the State's liabilities, including the adoption of a decree regulating public sector debt issuance (2017) and a SOE/Gov regulating financial management (2018). The governance of the Extractive sector is discussed in detail in paragraph 27.

External Sector

12. **Mozambique has incurred large current account deficits in recent years, averaging 35.4% of GDP during 2011-17, mainly due to high imports for megaprojects, but the increase in coal exports allows for a positive outlook.** The deficits were mainly financed by Foreign Direct Investment (FDI) mostly into the extractives mega-projects, which peaked in 2013 at 42% of GDP. Since then FDI in mega-projects have dropped, resulting in a decline of imports of domestic firms that supply megaprojects[18] (see Figure 3). FDI is estimated to have decreased to 17% of GDP in 2017, a 9-year low. Imports registered a sharp decrease from 51.2% of GDP in 2015 to 39.0% in 2017, reflecting lower demand for imported products given the economic slowdown (see §7). Exports have shown an upward trend from 23.1% in 2015 to 33.8% in 2017, largely due to the recovery of aluminium prices and a boom in coal exports, benefiting from the opening of the Nacala rail line project at end-2016, financed by AfDB[19]. Bolstered by coal exports, net foreign currency reserves are estimated at 5 months of import cover at end-2017. The outlook for 2018 and 2019 is positive, with a further expansion of coal and agriculture commodities exports, while import levels remained subdued. Thus, the current account deficit is projected at 16.3% in 2018 and 24.1% in 2019, reflecting the start of large investments in the gas sector. Despite its progressive decline in importance since 2014, ODA still represents above 13% of GDP and are a substantial driver of development, in particular for the Education and Health sectors, as well as a source of foreign currency.



Regional Integration

13. **While Mozambique is a founding member of SADC, the country is yet to reap the full benefits of regional integration.** Mozambique is not a member of other regional integration areas. It has waived duties from all SADC products. It is a growing contributor to the Southern Africa Power Pool, a position that could largely be enhanced with future gas and energy projects. However, apart from South Africa, trade with the remaining SADC countries is low[20]. The further development of quality road, rail and power connections under development to the neighbouring countries, 4 of them landlocked, if coupled with improvements in the business environment, will provide a market for domestic value chains and value addition through in-country processing and industrialization, as well as the creation of a logistics hub. Mozambique ranks 115th out of 122 in the Harvard University's Economic Complexity Index[21]. The narrow export base and low level of sophistication is reflected in its trade flows: Europe is Mozambique's 1st export destination (38.6% of total exports of which 70% is aluminium[22]); South Africa is 2nd (21.2%, mainly electricity and natural gas); Overall 24% of exports go to Asia (mostly India and China). South Africa stands-out as the main origin of imports (30% of total imports, mostly of consumer goods and food), followed by China (8%, consumer goods).

Private/Financial Sector

14. **Mozambique's private sector is still developing, contributing just 65% to GDP, and characterized by low productivity and competitiveness.** The sector is dominated by individual entrepreneurs and micro-enterprises, with few SMEs[23]. Factor productivity is low and value addition is limited, both in Manufacturing and Agriculture. Agro-businesses are generally constrained by high transport costs due to poor infrastructure, including low access to energy, inefficient ports, increased logistic costs, and costly business environment (tax, corruption, administrative costs, etc.). This is reflected in both the World Economic Forum Global

Competitiveness Index 2018 executive survey, where 'Access to Finance' and 'Corruption' remain the most binding constrains for doing business, as well as in the World Bank Doing Business 2018 Index, where 'Enforcing Contracts' and 'Getting Credit' are the most binding constrains. Other significant constraints flagged by these Indices are inadequate supply of infrastructure services, inefficient government bureaucracy and inadequate educated workforce. Despite considerable expansion of the Mozambique's financial sector during the last decade, financial inclusion is low. Approximately 70% of Mozambicans are without a bank account at a formal financial institution, while formal credit is only available to 3% of the population. However, the top three banks are accountable for 95% of the sector profits, suggesting a high banking[24] concentration, leaving smaller banks vulnerable to the economic downturn. Liquidity in the system is uneven and the Central Bank was forced to bail out a major bank in 2016. Access to affordable finance remains the top constraint for business development[25] as 75% of micro and SMEs are financially excluded, in particular in the rural areas. Addressing both physical infrastructural constrains that can foster productivity, competitiveness and access to markets, as well as legal and regulatory reforms, coupled with the provision of a skilled and adequately trained workforce is critical to enable the progressive structural transformation and diversification of Mozambique's productive fabric in both manufacturing and agriculture.

2.3 Social Context and Cross-Cutting Themes

Poverty and Inequality

15. **Growth has not been inclusive enough, with poverty remaining pervasive at just below 50% of the population in 2015[26].** The latest poverty survey released in 2015 (IOF14)[27], shows a considerable reduction in poverty to 49.2% of the population in 2015, from 69.4% in 1996. However, inequality is increasing illustrated by the deteriorating trend of the Gini coefficient from 0.4 (1996) to 0.47 (2015), while female-headed household's poverty is higher[28]. At the same time population growth reached an average of 4.3% during the last decade, posing added challenges for poverty reduction. In the HDI index, Mozambique ranks 181st out of 188 countries (2017). The country has not concluded its MDG reporting, but is a signatory of the 2030 Development Agenda, albeit still lacking to draw its national implementation plan towards the SDGs. High illiteracy and widespread lack of access to education and knowledge are serious barriers to inclusivity, particular in rural areas and worse in the Northern provinces (see Map of Mozambique), also undermining agricultural productivity.

Education, Skills and Employment

16. **The low education levels are a major hindrance to employment and productivity, while the fast growing population is pushing unemployment rates higher, in particular for the growing youth bulge.** It is estimated that 500,000 new entrants arrive to the job market per year. Total unemployment in 2015 stood at 20.7% (19.5% male versus 21.8% female), and youth unemployment (between 15 and 22 years) at 30%. Formal employment is available mainly in the public administration and urban SMEs, while 64% of the workforce is self-employed. The GoM has been committed to invest in education, with sector expenditure amounting to 6.5% of GDP (2017), which is relatively high in regional terms. These investments are reflected in the rapid increase in the number of Higher Education institutions, from 8 in the 90's to 54 in 2017, reaching of 180,000 students. Also worth noting is the increase in TVET training with the number of students expanding from 45,000 in 2011 to 64,000 in 2015. The GoM also approved the National Employment Policy in 2016. However, despite these achievements, Mozambique faces a skills gap, notably in technical skills (light industry and agriculture techniques) and higher education in technical areas (i.e. different engineering areas).

Gender

17. **Mozambique has been pursuing a female empowerment agenda and achieved commendable progress, but gender inequalities persist.** Mozambique has supported the

promotion of women in government; passing laws and regulations for woman; launching campaigns to raise awareness of women's rights; and, promoting gender parity in education. As a result of these initiatives, the proportion of women in leadership positions has increased, with currently 39.2% of women in parliament, the 5th highest figure in Africa and 12th highest in the world. Nevertheless, Mozambique fares low on the Gender Inequalities Index[29] ranking 139th out of 159. The main challenges are: (i) reducing maternal mortality along with the improving universal access to sexual and reproductive health services (HIV/AIDS); (ii) efforts to guarantee girls retention, progression and success in primary and secondary school levels; (iii) ensure greater access for women to productive resources, in particular land and finance, aimed at reducing poverty levels; and (iv) provide access to employment, water and sanitation and ensure access to food to increase nutrition levels.

Climate Change

18. **Mozambique was ranked 1st country in 2017 in most exposed to risks emanating from climate-change[30].** Mozambique's per capita CO^2 emissions with 0.1 tonnes per year are lower than the average of low-income countries in general (0.3 tonnes). The cost of not inaction on climate change mitigation was estimated at 450 million USD per year[31], which is reflected by the country's tendency towards adaptation – instead of mitigation – in its climate change policies and strategies. In 2012, Mozambique developed its 2013-25 National Climate Change Adaptation and Mitigation Strategy Strategic actions, which include forestry measures, developing low-carbon agricultural practices, and reducing deforestation and wildfires, while in 2018 it presented its Nationally Determined Contributions[32]. At institutional level, there is a need for capacity building support in the areas of data collection, early warning systems and access climate finance.

3 PARTNERSHIP FRAMEWORK AND BANK POSITIONING

3.1 National Strategic Framework

19. **The GoM established its long term development strategy – the ENDE – for the period 2015-35.** The main objective of the ENDE is the improvement of the livelihoods of the population through the structural transformation of the economy, and the expansion and diversification of national production. The pillars and the priority areas under the ENDE are broadly consistent with the Bank Group's High5s. The strategy is to be implemented through the 5-Year Government Programs (PQGs). The PQG goal for 2015-19 is to increase employment, productivity and competitiveness to improve living conditions of Mozambicans in rural and urban areas, in an environment of peace, harmony and tranquillity, while consolidating democracy and inclusive participatory governance (see Annex X – Country Strategic and Planning Systems).

20. **Mozambique's development financing needs greatly exceed its fiscal capacity.** For Mozambique to reach a public infrastructure base that is comparable with similar developing countries, an annual investments of USD 1.7 billion (26% GDP) is required for a decade[33]. The required investments represent about 1.5 times China's historical infrastructure investment-to-GDP during the mid-2000s. During 2011-15 the GoM allocated 13% of GDP annually to capital expenditure, which declined to 4% during the 2016-17 economic slowdown.

3.2 Development Partnership Framework

21. **Mozambique has a well-organized aid coordination framework, but the Hidden-debts case has strongly undermined Development Partners' confidence.** Since early-2000s the aid coordination structure in Mozambique was built around a Memorandum of Understanding between the GoM and a group of 19 Programmatic Aid Partners (PAP) – known as "G19". The group served as a *de facto* coordination and management mechanism for the overall aid in the country, supported by sector and thematic groups covering all aspects of the country's development program. The overall level of ODA peaked in 2013 at USD 1.8 billion. In 2015, the last year of provision of

Global Budget Support 'GBS', total ODA reached 10% of GDP (see Annex VIII – Development Partners in Mozambique). The suspension of budget support in 2016 in response to the Hidden-debt case, unravelled the aid coordination framework. The creation of a new formal coordination platform or mechanism is under discussion between PAPs and GoM. ODA is increasingly channelled through direct project investment, and there is a progressive shift in allocations away from the Common Funds modality in favour of direct support to non-State actors. In terms of sectoral distribution of aid, technical assistance is mostly focused on PFM reforms, while investment projects focus on Infrastructure and Education. The Health sector is financed almost entirely by global initiatives such as Global Fund and GAVI, recently questioned due to governance issues. The World Bank[i], the European Union, Germany and UK, are the largest partners. Presence of non-traditional partners in the country is strong and expanding. China and Brazil have provided extensive credit lines, concessional and non-concessional, mostly directed at infrastructure. Other relevant partners are Vietnam, India and Korea.

Bank Positioning

22. **The Bank has become a partner of choice for the Government, as well as Development Partners and the private sector.** During the last decade, the Bank's CSPs for Mozambique focused on infrastructure development and governance. The Bank has built a solid reputation as a partner of choice for the GoM, DPs and the private sector. Through pro-active engagement on site and innovative leadership, the Bank has positioned itself as a key partner in infrastructure and for the country's Green Growth agenda, in close collaboration with UNDP, WWF and UNEP. The role of the Bank as a convenor, connector and catalyst is a distinctive competitive advantage, sought by both sovereign and non-sovereign borrowers. An excellent example in this connection is the Nacala Rail line and Port multinational project[34]. The Bank is well positioned to play a significant role as a convenor and facilitator of country dialogue at a time when policy dialogue focuses on the resolution of the fiscal and debt crisis and Mozambique's reengagement with the international community and financing institutions. The use of co-financing and non-sovereign operations enabled the Bank and the GoM to efficiently use Mozambique's relatively small ADF country allocation to leverage resources from IFAD, JICA, OPEC, as well as local and international commercial banks, thereby achieving greater impact.

Box 2 - Mozambique Challenges and Opportunities

CHALLENGES	OPPORTUNITIES
▪ Pervasive poverty and inequality ▪ Unemployment and industrialization – Insufficient pace of structural transformation ▪ Low educational levels – lack of qualified workforce and entrepreneurs ▪ Weak Infrastructure – disperse population impairs public service delivery ▪ Agriculture productivity – low crop yields and use of modern technology ▪ Natural resources management – frail revenue management and challenged natural capital ▪ Macroeconomic management	▪ Large fiscal revenues – a potentially trifold in fiscal revenues from extractive sector in the medium-term ▪ Large FDI inflows – influx of investment double of GDP will finance the economy and provide linkages ▪ Geographical positioning – the unique regional position as a hinterland gateway ▪ Abundant natural resources – the wealth of mineral an natural capital above and beyond the gas ▪ Young population – the 2nd most populous country in Southern Africa with a growing youth bulge

3.3 Strengths, Opportunities, Challenges and Weaknesses

23. **Mozambique's overarching development challenge is the pervasive poverty and inequality, notably in rural areas where most of the population live, dependent on subsistence agriculture and disconnected from the centres of growth.** To effectively tackle this challenge, it is necessary to accelerate the country's structural transformation and industrialization, reduce the business transactions costs and address the skills gaps, building on its vast natural resource

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[i] The IDA financial envelop for 2017-2019 will be of USD 1.4 billion.

potentials, in order to generate jobs, notably in the rural areas, where the majority of the poor population lives. Mozambique's strengths and opportunities as well as its challenges and weaknesses are discussed in the following sections and summarized in Box 2 above.

Strengths & Opportunities

24. **Mozambique has significant growth potentials in the agriculture and natural resources sectors.** To promote and accelerate structural transformation, industrialization and higher value added job creation, a more dynamic SME fabric is needed, particularly in the rural areas. The most promising path to industrialization relies on upscaling agro-processing and the deepening of agriculture value chains, but also light industries (e.g. textile, packaging, basic consumer goods, plastics) to competitively substitute imports, as well as throughout the downstream of the natural gas value chain (see §27 for a detailed discussion of the Natural Resources sector). Deeper integration between regions and the removal of barriers to trade and improve access to local and regional markets would further foster the environment for industrialization. At the same time, the promotion of backward and forward linkages between the underdeveloped rural areas and the development corridors needs to be strengthened, to facilitate the mobility of the workforce and improve access to markets. To this end, there is a need for increased investment in infrastructure, notably in energy and transport to promote competitiveness, as well as to support agro-industries in rural areas[35].

Agriculture

25. **Mozambique's agriculture sector is a major employer – 74.6% of total workforce – but characterized by subsistence farming with very low productivity.** In absolute terms, agricultural production increased remarkably over time (see Figure 4). However, output increases are mainly a result from an expansion of cultivation areas, rather than from increases in productivity, while a continued expansion of cultivation areas is constrained by land tenure issues. Furthermore agriculture production is regularly affected by climate shocks. Farmers are almost exclusively smallholders. Yields of rice, maize, and cassava are among the lowest in the region[36]. Provision of public agricultural services is modest[37]. From 2002 to 2012 the value of production sold did not change[38], with only about 18% of farmers selling maize and 13% selling rice. With the fast population growth outpacing current agriculture production, Mozambique's dependence on imports for food is expected to reach 25% by 2040[39]. In line with the country's Agricultural Transformation Agenda (ATA), initial experiences with integrated agriculture corridors – agro-based spatial development initiatives[40] – such as the Beira Corridor[41], are yet to mature but provide inroads into fostering agriculture commodities value-chains that can increase production and productivity. To facilitate agriculture integrated development it is crucial to promote land tenure reforms, infrastructure that provides market access, climate resilience, as well as promoting the enabling environment by strengthening contract farming and out-grower schemes, linking smallholders to the value chains of large commercial farms and processing industries.

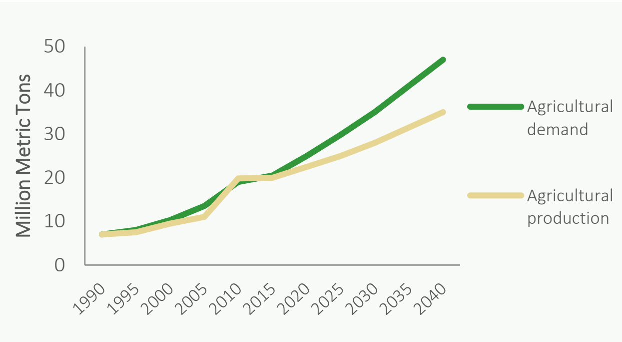


Figure 4 - Agriculture supply and demand

Natural Resources and Natural Gas

26. **Mozambique is well endowed with natural resources, notably gas, which could boost the country's overall socio-economic development if revenue from extractive industries are managed well.** Mozambique has been declared EITI-compliant since 2012[42]. However, during the past 15 years, the country's Adjusted Net Savings[43] have been negative or close to zero, suggesting that the country missed to translate its natural wealth into other forms of capital[44]. The country currently has the opportunity to lay the foundations for a successful transition to a Green Growth development model that can capitalize on the economic and social potential of the booming extractive industry. The opportunity is to foster new industries, services and jobs, sustainably harnessing the country's rich natural endowments, such as the extensive coast line, the large squats of available arable land, as well as the large and diverse reservoir of minerals and hydrocarbons. If well managed, renewable natural resources will outlast non-renewable ones, diversifying the asset base to enhance the economy's resilience and competitiveness.

27. **The gas sector is facing a defining moment while it awaits a final investment decision on the large LNG plant.** Mozambique produces on-shore natural gas since 2004[45], while its first off-shore field is already under development stage[46]. The legal and fiscal framework for the mining and hydrocarbons sector was completely revised, placing it up to par with international standards. However, the country ranks only in the mid-field of the Natural Resource Governance Index[47], i.e. 41st out of 89 countries (2017), with a good performance on value capture at licensing, but insufficiencies in revenue management and the overall enabling environment for the sector. With the support of DPs the GoM is pursuing a reform agenda to strengthen the macro-fiscal and PFM framework to prepare the management of the forthcoming revenues from LNG. Anadarko and ENI are the two leading companies for the joint development of the on-shore LNG plant (see **Box 3**). The decline in gas prices in the international energy markets has been delaying the final investment decision on the project, but the economic and fiscal impact of the project is expected to be a game-changer. Learning from the disappointing past experiences with megaprojects, the LNG plant offers renewed opportunities for the creation of a downstream value-chain that can develop a domestic industrial cluster (e.g. fertilizers, gas-to-liquids). It will be crucial to forge the necessary linkages between the sector and the domestic economy, as well as the whole region, and ensure the resilience and competitiveness of the real economy. In addition, a robust institutional framework for the management of the expected large fiscal revenues has yet to be put in place, to ensure the translation of these revenues into concrete development outcomes for the entire country.

Box 3 - The Rovuma natural gas project

- Total estimates of natural gas reserves in the Rovuma basin are 180 tcf
- Enough gas to supply Britain, France, Germany and Italy close to 20 years
- Total project cost starts at USD 20 billion and can go up to 100 billion
- Estimates for fiscal revenues considering cruise production, based on current fiscal framework and expected market prices, vary between USD 200 and 400 billion during 40 years
- In May 2013, 200 million barrels of commercially viable oil where confirmed at Area 2, opening the prospects for oil production
- New off-shore concessions tendered in 2017 may yield more gas finds

Challenges & Weaknesses

Infrastructure

28. *Power:* **despite having one of the highest energy potentials in the world, Mozambique has an underdeveloped electrical power system, which allows only about one in four citizens to have access to on-grid electricity.** Even though the access rate quadrupled since 2000[48] to 30%, the country needs to substantially accelerate the pace of national electrification to reach the goal set by the GoM to provide 100% access by 2030. Mozambique's current energy mix, provided also by a few independent power producers, is composed by 56% of hydropower and 42% by gas-to-power, while the remaining 2% of energy is imported[49]. The country is not yet evenly served by on-grid electricity, lacking connectivity between the central and southern power systems. The institutional framework is maturing with the recent creation of a sector regulator and the progressive phasing-out of tariff subsidies, as well as relevant reforms within the national power utility (EDM), including the separation between distribution and generation activities and the introduction of human resources management.

29. *Transport:* **Mozambique's main challenge in terms of transport infrastructure is its low road coverage, especially in rural areas, that translates into high transaction costs and makes the country's productive sectors uncompetitive.** The Government Transport Strategic Plan (2009) has a focus on development corridors[50], integrating the road, maritime and railways subsectors, as well as the Aviation and Urban sub-sectors. These corridors serve domestically as economic growth poles and as links between urban and rural areas, while also providing a backbone of public service delivery. Three main corridors (Maputo, Beira, Nacala) serve 4 landlocked countries through road and rail road, linked to deep water sea ports, and international airports, at the same time interconnecting the country East-to-West (see Map of Mozambique). However, the country has one of the lowest road coverages on the continent, both per capita (45th out of 54) and land area (46th). Only 33% of the rural population lives within 2 km of an all season road. The sector suffers from major capacity constraints in technical and human resources, compounded by the rapidly expanding infrastructure asset pool and thus rising maintenance costs. Further development of the road network is required to provide access of rural areas to domestic and regional markets, with an integrated approach that promotes agriculture value-chains and public service delivery.

30. *Water:* **Mozambique has vast water resources, but infrastructure deficiencies, notably inadequate irrigation, and poor sector management undermine adequate water supply and flood control.** The spatial and temporal variability in precipitation across the country and the fact that many rivers originate outside the country[51] make Mozambique vulnerable to both drought and floods, as well as irregular water supply to populations and business. Just 50% of the population is directly connected to water[52]. Agriculture (including irrigation, livestock and forestry) uses about 73% of total water consumption; industries only about 2%, and urban and rural domestic water supply use the remaining 25%[53]. However, the actual irrigated farmland is not more than 4% of the estimated potential of nearly 3 million ha.

Fragility

31. **Mozambique has been included in the Multilateral Development Banks' harmonised list of fragile situations.** Mozambique's scores in the cluster 'Economic Management and Governance' of the Multi-lateral Development Bank's CPIA have decreased in recent years, placing the country below the threshold score of fragility (i.e. 3.2). The Bank is conducting a Fragility Assessment to identify additional Security, Social and Environmental areas of fragility

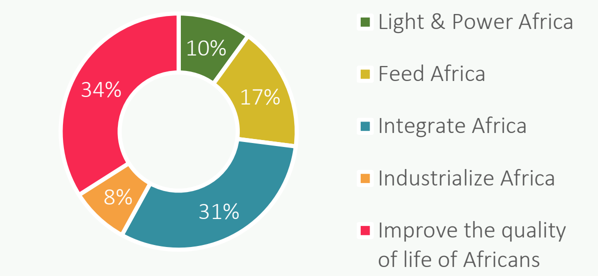
(Table 1, p.12) and considers the country's eligibility to support from the transition state's facility. Annex XIII – 2017 Country Fragility Assessment provides a detailed fragility assessment.

Table 1 - Fragility Drivers in Mozambique

Social	Environmental	Political	Economic	Justice & Security
▪ High-population growth ▪ Slow urbanization and dispersed population ▪ Inequality along economic, education and social lines ▪ High unemployment	▪ Extreme weather events ▪ Sea water levels rise ▪ Fossil fuels-based model	▪ Perceived political patronage and nepotism ▪ Perceived politicization of state institutions ▪ Porosity in Public Financial Management	▪ Narrow and geographically concentrated critical infrastructure ▪ Non-inclusive growth model ▪ Effects of the hidden-debt crisis on the economy	▪ Risk of prolonged armed conflict ▪ Limited and weak social dialogue

3.4 Main outcomes of the CPPR

Figure 5 - Portfolio contribution to the High5s



32. **The composition of the Bank's portfolio in Mozambique reflects its alignment with the pillars of the previous CSP 2011-15: (1) Infrastructure; and (2) Governance.** As of December 1st, 2017, the Bank's total portfolio consists of 19 national ongoing lending operations amounting to UA 346.9million and two regional operations amounting to UA 112.7million, bringing the total on-going portfolio to UA 459.2 million. Seventy one percent of the portfolio is infrastructure financing, with a strong footprint on road corridors (62%), in particular for regional linkages. The Agriculture sector represents 14.4%, the Power sector 9.7% and Mining 6.4%. Eighty percent of projects are funded through the ADF window. The remaining projects resort to other funding sources (12.6%) and the private sector window with 2 projects (7.8%).

33. **The focus of the Bank's country dialogue has been on Natural Resources Management, domestic resource mobilization, and PFM issues.** The Bank has been a longstanding provider of budget support focused on PFM reform, Natural Resources and Business Environment. The dialogue was strengthened by 4 Economic Sector Works concluded or launched: the Green Economy Action Plan (completed); the Geological and Mineral Study of Mozambique (finalizing); the Domestic Resources Mobilization Study (completed); and the Unlocking private sector development – a Blended Finance Approach (in launching phase). In addition an international high-level policy seminar was organized in Maputo on the topics of managing revenues and optimising the benefits of coal and gas resources.

34. **The performance of the Bank's portfolio is considered satisfactory, with an overall score of 2.72 (on a scale of 0 to 4).** This implies that all outcomes are expected to be achieved at the end of the project provided corrective actions are identified and implemented in a timely manner. This is the lowest rating during the period 2010-17. The Transport sector has the highest number of flagged projects (3 flagged and 2 under close watch). The main causes of the flagging include delays in first disbursement and delays in disbursement in counterpart finance including VAT refunds to suppliers[54], deterioration of security in some project areas – requirement in the Mozambique framework of prior approvals of contracts by the Administrative Tribunal (for a detailed analysis see Annex VII – Country Portfolio Improvement Plan).

3.5 Lessons Learned from the CSP 2011-15

35. **While the CSP 2011-15 was well aligned to Mozambique's national strategic framework and achieved tangible results, it is clear that greater effort is needed to accelerate the country's structural transformation and industrialization to effectively address the county's overarching development challenge (see §22).** The Bank should therefore support Mozambique in improving its general business environment through investments in the country's underdeveloped infrastructure. This will make the country's economy more competitive and enable/incentivize existing and new private sector companies to engage in industries and sectors with potential for higher value added, transformational productive economic activities and job creation. Mozambique's agriculture sector plays a paramount role in this connection, in particular from a spatial/rural growth perspective, given its large yet untapped potential for agro-business and agricultural value chains. Therefore, the Bank should support the modernization and dynamization of the country's agriculture sector through integrated agriculture development. Furthermore, the Bank should support the implementation of legal and regulatory reforms, to ensure the transparent use of revenue from natural resources, especially gas, for the country's overall socio-economic development. Additionally, the Bank should scale up policy dialogue and advisory services, notably on "soft" issues and policy reforms, to strengthen its positioning as a true knowledge institution. The Bank should also further increase its role as a convenor, connector and catalyst with a view towards leveraging additional development finance in particular from the private sector, especially given the lower ADF country allocation. Last but not least, the Bank should beef up direct support from its private sector window to industries/businesses with potential to engage in transformational economic activity and higher value added job creation.

4 BANK STRATEGY FOR 2018-2022

4.1 Rationale and Strategic Selectivity

36. **As discussed above, while Mozambique has several strengths and opportunities, the country also faces significant challenges and weaknesses that constrain economic transformation, industrialization and higher value added job generation, which is necessary to reduce poverty and inequality.** The key constraints for an acceleration of Mozambique's structural transformation, industrialization and higher value added job generation are manifold and complex, requiring a well-designed policy response. Key constraints include: (i) weak value chains, notably in agriculture, with limited access to domestic, regional and international markets, compounded by insufficient infrastructure connectivity; (ii) costly business environment, including not only inadequate infrastructure services, but also legal and regulatory constraints, and logistical issues; and (iii) skills and knowledge gaps, resulting in low labour productivity. In addition, cross-cutting challenges include the strengthening of resilience to climate shocks and putting in place a robust governance framework for the sustainable management of natural resources, the extractive sector and its expected large fiscal revenues. The policy response should, therefore, focus on significant infrastructure development, both domestic and regional; development of the agriculture sector to promote value chains and enhance productivity; good governance of the natural resources to ensure the efficient and effective use of revenue and the realisation of downstream industrial opportunities especially the domestic value chain; and skills development to provide the private sector with the requisite human resources. This needs to be framed by a stable macroeconomic environment through sound monetary and fiscal policies, notably debt management, and the mainstreaming of good governance practices.

37. **Given the highly limited level of concessional resources available for Mozambique (see section 4.6), the Bank has identified a set of key selectivity criteria to determine the CSP's strategic and operational choices to best support the country's economic transformation and overall socio-economic development.** These selectivity criteria aim to guarantee a maximum

development impact of Bank operations, in line with the country's priorities and the Bank's High-5s. The criteria are summarized as follows:

38. *Crucial challenges and opportunities.* The CSP will address Mozambique's overarching development challenge of pervasive poverty and inequality, notably in rural areas where most of the population live, dependent on subsistence agriculture and disconnected from the centres of growth. The CSP will build on the unique opportunities provided by the large inflows of FDI and the massive fiscal revenues deriving from the natural resources that present a transformational opportunity for the rural areas and populations, to be included in a new model of growth, by addressing the crucial challenges of weak infrastructure, low educational and skills levels, to improve agriculture productivity and harness the demographic divided.

39. *Bank's comparative advantage and Lessons learnt.* The CSP builds on: (i) the solid reputation acquired by the Bank as a partner of choice for both the government and private sector, as well as its honest broker role, which will be of increasing importance at a time of concurring challenges faced by the GoM, namely the financial constraints, to facilitate private investment and the complex, large transformational projects in the gas sector; (ii) the Bank's successful track record in agriculture and infrastructure modernization; (iii) its distinctive position as a knowledge institution and advisory role on green economy, natural resources and integrated infrastructure development; and (iv) the progressive role as a knowledge provider to clients and partners.

40. *Stakeholder consultations and country strategic framework.* The CSP has the endorsement of the GoM and responds to its request for piloting the New Deal for Energy for Africa. The priorities are aligned with the country's strategic framework, specifically the ENDE focus on economic diversification and industrialization, and the PQG 2015-19 2nd and 3rd priorities[55], and were informed by consultations with the civil society and private sector. Furthermore, sectorial and geographic complementarity with other DPs' activities were sought given the extensive support provided by other DPs notably in PFM and Governance, as well as to focus on rural development where less partners operate, in particular in the Northern Region.

41. *The Bank's corporate strategic framework and analytical work.* The CSP is aligned with the Bank's strategic framework, notably its Ten-Year Strategy 2013-22 and the High-5s, as well as the strategies for Energy, Jobs, Gender, and the Technologies for African Agricultural Transformation (TAAT) program. The CSP is informed by knowledge products generated during the CSP process[56], and informed by the draft new Regional Integration Strategy 2018-22 for Southern Africa region.

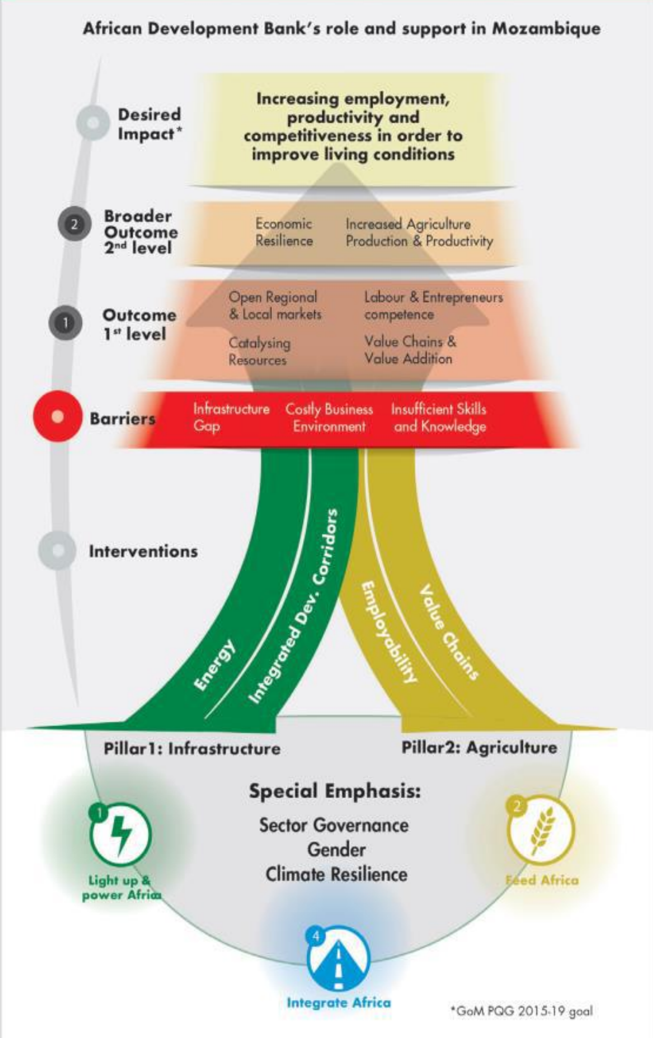
4.2 CSP Objective and Pillars

42. **The CSP's main objective is to boost and accelerate the country's structural transformation with a view towards creating the necessary jobs required to effectively and sustainably reduce poverty and inequality.** Therefore, the CSP will support the creation of an enabling business environment that is more competitive in order to incentivize and dynamize the private sector through investments in energy and transport infrastructure, which also open-up access to local and regional markets. This will be complemented by direct Bank support to businesses with the potential to engage in higher value-added, transformational productive economic activities and to create formal wage employment, as well as by skills development of the work force and strengthening of the entrepreneurial fabric to reduce regional and gender disparities. The CSP will also aim to transform agriculture, develop agro-businesses and support agro-preneurs through the creation and integration of SMEs in value-chains and high value-added activities, including the establishing of linkages to the extractive sector and harness the opportunities provided by natural resources, while mainstreaming governance best practices across sectors.

43. **The main innovations of the CSP consist in its focus on structural transformation and industrialization and in tackling key fragility vectors by reinforcing climate, social, as well as**

economic resilience. The CSP will promote sustainable infrastructure, sustainable natural resources management, and address spatial inequalities by promoting rural economic development where poverty is pervasive, with an emphasis in the Northern regions where development needs are higher. In a constrained financing framework (Mozambique is not eligible to access ADB sovereign window), the Bank will focus on innovative approaches and on leveraging additional funds from other donors or private investors, seeking to tap into co-financing facilities. The use of innovative de-risk and credit enhancement instruments (e.g. Partial Risk and Partial Credit Guarantees), blended finance, Public-Private Partnerships as well as climate funds to complement ADF resources to invest in climate resilient agriculture, sustainable infrastructures and renewable energy will be a key element of this strategy. The Bank will consider innovative project designs such as Result-Based Financing that can encourage innovative reforms practices and facilitate partnerships with other donors. A further innovation will be the systematic mainstreaming of governance in all Bank operations by focusing on improving sector governance. Similarly, gender equity will be mainstreamed: gender analysis will be systematically undertaken during the preparation of each new project, and specific components targeting women will be included where feasible. Special consideration will be given to strengthening the capacity of sector ministries and agencies for mainstreaming gender. Also, priority will be given to mainstreaming climate change resilience issues in projects, as well as to projects that promote regional integration. Furthermore, following the "Hidden-Debts" case, dialogue between the GoM and DPs has been limited, while the country's financial situation has deteriorated. Building on its experience the Bank can have a pivotal role in facilitating in-country dialogue and aid coordination[57]. Support to policy dialogue, notably on crucial issues such as debt sustainability, will assist the country re-establishing its creditworthiness that in the long-term would open access to the ADB window. Support will be provided through advisory services and knowledge products for policy reforms in macroeconomic management, management of natural resources and resource mobilization.

FIGURE 6: Theory of Change



44. **The CSP 2018-22 is articulated around two pillars: (1) Development of infrastructure to enable transformative inclusive growth and job creation;** and **(2) Support to agricultural transformation and value chain development.** The CSP will contribute to the High5s of Light Up and Power Africa, Feed Africa, and Integrate Africa. Areas of special emphasis are Governance, Climate Resilience and Gender equality. Through the High5s, the Bank will be directly contributing to the SDGs. The CSP's two pillars are complementary and reflect CODE's guidance on the proposed strategic scope of the CSP (see Annex XVII – Matrix of CODE Comments).

4.3 Expected CSP Results

45. **The Bank's CSP 2018-22 will contribute to the achievement of the objectives of the ENDE 2015-35 and the PQG, the Bank's High-5s and the Sustainable Development Goals (SGD).** To achieve the expected CSP outcomes and targets, the Bank will implement a combination of delivery instruments from its public and private sector windows, including a lending program of investment and institutional support projects, coupled with analytical work and policy advisory services. Special emphasis will be given to Bank support from its private sector window, both in terms of financing and advisory services. The CSP's main expected outcomes and targets are presented under the two pillars discussed in the following paragraphs. The Strategic Alignment Matrix and the Country Performance Matrix in Annexes II and III provide the framework for strategic alignment of the interventions, as well as the performance targets. The Annex IV – Results Based Framework shows the outcomes and outputs expected at mid-term and by end-2022.

Pillar 1 - Development of infrastructure to enable transformative inclusive growth and job creation

46. ***Main Objective.*** **The main objective of this pillar is to create an enabling business environment that is more competitive in order to incentivize and dynamize the private sector through investments in the country's energy and transport infrastructure, which connect rural areas to development corridors and thus improve access to local and regional markets.** The interventions under this pillar will be focusing on the High5s Light Up and Power Africa and Integrate Africa. The pillar is aligned with the PQG's 2015-19 goal of economic and social infrastructure development[58], and the SDG 7 Renewable energy, SDG 8 Good jobs and economic growth and SDG 9 Innovation and infrastructure. By making energy and transport more accessible, affordable and reliable, Bank support will enable and boost private sector activity, by both existing as well as new enterprises that engage in higher-value added production and job creation, thereby promoting economic transformation. Bank investments under this pillar will also facilitate the integration of rural areas with development corridors and the regional networks, and establish linkages with the economic opportunities brought by the exploitation of Mozambique's natural resources.

47. *Energy.* Bank support will assist the GoM in attaining the ambitious NDEA-goals as per Mozambique's national strategies. Making use of concessional financing, Bank support will include investment operations in hard infrastructure, namely in a robust national control centre that will provide the country with an enhanced grid operation capacity with regional interconnections. Further investments in generation and transmission infrastructure will leverage Mozambique's large energy production potential to the service of the Southern Africa Power Pool. In addition, the Bank will mainstream good governance in its projects in the power sector, e.g. enhance procurement practices with LPPs; enhanced capacity of EDM to deliver services and the sector agencies institutional capacity.

48. Through blended finance, de-risk instruments and credit enhancement (e.g. PRGs and PCGs), in addition to non-sovereign resources, the Bank will support transformative projects that sustainably exploit Mozambique natural gas and assist the country's structural transformation. The Bank will seek for additionality and enhanced impact of the LNG sector development, ensuring the necessary local economic linkages and opportunities for the creation of a downstream value-chain that can develop a domestic industrial cluster (e.g. fertilizers, gas-to-liquids). In the same way, opportunities will be created for clean energy generation projects with private sector participation that will contribute to generate important revenues from regional energy exports, but also supply the local demand for energy. The economic diversification in rural areas requires the commercial deployment of renewable energy based rural mini-grids. The Bank will mobilize other funds under its management, and leverage global development financing initiatives focusing on renewables, to unlock the bottlenecks in the off-grid market for investment and attract private investors.

49. *Main Results.* The electricity access rate at the national level is expected to rise from 30% in 2017 to at least 65% in 2022. Furthermore, additional key expected results are: (i) 100 Km of 400kV transmission line constructed; (ii) 200 MW of transmission capacity added to the national grid; (iii) a redesigned licensing process for renewable generation projects; (iv) EDM's operational margin to improve from -8% to breakeven; (v) 120 MM of wind-powered generation installed; and (vi) 2 liquefaction trains of 6 MMTPA each, with (vii) 8,500 jobs created during construction, as well as (viii) a complete growth pole development that includes air and sea ports, and an industrial park.

50. *Integrated Transport Corridors.* Bank support will comprise investment projects financed by concessional funds in roads and other transport infrastructure to strengthen transport corridors and boost growth poles. The completion of major regional road corridor backbones is essential to leverage the economic activity of the country and interlink rural areas with local markets and the region, in particular the trans-border regional growth poles of Niassa and Cabo Delgado, which are provinces with a high poverty incidence. The further capillary expansion of downstream linkages from transport corridors can unlock the agriculture potential of vast rural areas by facilitating market access and fostering SME fabric, which will generate higher value-added jobs. This will be complemented by concessional resources and trust funds to finance technical assistance operations that can enhance infrastructure management, the attraction of private investment, and create new development poles with the mainstreaming of natural capital management that can sustain the expected surge in urban population in these regions.

51. *Main Results.* Key results include: (i) 900km of built and rehabilitated roads; and (ii) 500km of upgraded roads.

Pillar 2 - Support to agricultural transformation and value chain development.

52. ***Main objective.*** **The main objective of the second pillar is to contribute to agricultural transformation and expand agriculture value chains.** The Bank's interventions under this pillar will focusing on the High5 of Feed Africa, and contribute to SDG 1 No Poverty, SDG 10 Reduce Inequalities and SDG 13 Climate Action. Furthermore, the proposed interventions are directly related to the Technologies for African Agricultural Transformation (TAAT) initiative, to significantly increase agricultural and livestock productivity and production in the shortest possible time and at scale by adopting existing technologies including high yielding seed varieties. In this regard, the Bank under this pillar will invest in agricultural value chains, emphasizing an industrial approach for Mozambique agriculture, supporting small producers to strengthen their access to markets, as well as investing in skills and technologies to enhance productivity. Bank activities in agriculture will leverage existing investment in infrastructure (be it irrigation schemes, power connections, and road networks to access markets), with complementary capacity building for producers to move up the value chains and become effective and efficient agri-preneurs. The Bank will foster a competitive agricultural sector that could seize domestically the opportunities from the extractive sector development, particularly in the North where the subsequent urbanization will drive a surge in demand for food.

53. *Value Chains and Linkages.* Through the use of sovereign concessional resources the Bank will support agricultural productivity through investment in irrigation and climate coastal infrastructure, combined with the provision of extension of climate resilient technologies and techniques. Furthermore, technical assistance on marketing and training to agricultural service providers will be provided both to public sector agencies and to the private sector, to allow the building up of sustainable agribusiness and value chains, capable of creating value domestically. The Bank support will include where applicable the promotion of SCPZ initiatives designed to concentrate agro-processing activities, including through non-sovereign direct investments in agri-business. Lastly, the Bank will undertake specialized policy research in agriculture development that can

inform decision makers to effectively create an enabling environment for the sector and support economic agents.

54. *Employability.* Bank support under this pillar will also support the needs of the private sector through skills development, both in agricultural science and technologies and in complementary business and entrepreneurship skills applied to agriculture. Through concessional resources the Bank will invest in tertiary education in institutions and TVET frameworks for agriculture and related disciplines, with a specific focus on offering educational opportunities and entrepreneurship to women and girls.

55. *Main Results.* Key results include: (i) 5,500ha of irrigation schemes for vegetables; (ii) 1,150ha of forest restored; (iii) improved dam operational efficiency by 1.4 million m3; (iv) rice yields increased from 1 to 2 tons per ha; (v) annual incomes for small-holder farmers increased by USD 100; (vi) 600 poultry producers that received start-up packages; (vii) business management for 580 nutrition trainers; (viii) 20,000 farmers received access to irrigation/inputs/extension services; and (xi) 5,000 workers trained (50% women).

4.4 Areas of Special Emphasis

56. In line with the Bank's TYS, areas of special emphasis of the CSP are Governance, Climate Change, and Gender Equity.

57. *Governance.* The Bank will promote Good Governance in a targeted manner across the two pillars of the CSP, in order to help address this driver of fragility. Governance activities will, thus, support a better management of the energy sector by strengthening the capacities of the Ministry of Mineral Resources and Energy and EDM in planning and selecting projects; improved procurement practices and financial management of the utility companies. The Bank will also provide policy advisory services and knowledge products on debt management and project financing frameworks, including PPPs. The Bank will also promote inclusive and sustainable management of natural resources, and derived revenues, through advisory work, knowledge generation and dialogue. For example, the Bank will promote the inclusion of natural capital in the Government choices and trade-offs on use of resources, and on the sustainable management of revenues from extractive resources. A holistic approach to natural resources planning will also support the interlinkages between agriculture and infrastructure.

58. *Climate Change.* The Bank will mainstream climate change considerations across all its interventions. In particular, investments in agriculture will respond to the need for flood and drought control infrastructure; will support the adoption of climate sensitive agriculture techniques and technologies; as well as support to disaster management capacity. The Bank investment will emphasize climate-proofing of design and planning of infrastructure; supporting the GoM in diversifying its energy sources and limiting deforestation.

59. *Gender Equity.* Gender equity will be mainstreamed across projects as explained in §42, and directly addressed under Pillar 2 through the support to women producers in accessing extension sources and technologies and setting up agri-business. Access to learning opportunities for agro-skills will specifically target women and girls. Under Pillar 1, the Bank will work with the GoM to promote gender-sensitive considerations in infrastructure planning and design and will support programmes to enhance women and girls' access to clean and sustainable energy.

4.5 Country Business Program

60. **The Country Business Program (CBP)** is a rolling 3-year program, to be continuously developed during the CSP period based on constant dialogue with clients. The CBP includes a pipeline of operations as detailed in the Annex I - CSP 2018-22 Three-year Rolling Indicative Country Business Program). The **non-lending activities and knowledge work** are also part of the CBP. The following knowledge products are envisaged: (1) ESW on Agricultural Sector Public

Expenditure Review; (2) ESW on Unlocking Private Sector Development, which is a Blended Finance study providing policy recommendations for Private Sector Development and opportunities for blended finance investments, including agribusiness; (3) Knowledge Program on Natural Resources, with advisory work and policy notes on the sustainable management of natural resources and its revenues; and (4) a Knowledge Program on Macroeconomic Stability, consisting of short policy-notes and advisory work on debt reduction, domestic resource mobilization and revenue management, as well as the financing framework for public investments within the areas of specific strategic focus of the CSP, including the review of the national PPPs framework.

61. **Country Dialogue. In support of the Bank's strategic objectives in Mozambique, the Country-Office will continue to engage strongly in dialogue and business development.** The Bank will strengthen its positioning as a knowledge institution both with the GoM, DPs, and other stakeholders, taking full advantage of its local presence. The main topics for dialogue are: *i) Sovereign access to ADB.* The Bank will strengthen its position as a partner of choice and assist Mozambique to surpass its current financial constrains in order to unlock its tremendous potential, towards creditworthiness and the long-term goal of achieving eligibility for access to the ADB's non-concessional sovereign window. Through advocacy, knowledge and advisory work, the Bank is committed to assist Mozambique in the implementation of macroeconomic policies and reforms. *ii) Partnerships.* The Bank will increasingly position itself as a partner of choice for the GoM, but also for other DPs and the Private Sector. The Bank will play a catalytic role in leveraging other resources by using the Bank's innovative instruments and co-financing, and continue to expand its local partnerships, The Bank will expand current partnerships and seek to establish new ones including with JICA, World Wildlife Foundation (WWF), Department for International Development (DfID), Nordic Development Fund (NDF), Canada, Global Environmental Fund (GEF), Global Climate Fund (GCF), OPEC, The Council for Scientific and Industrial Research (CSIR). *iii) Natural Resources Management.* With the support from the Bank, the GoM is on the forefront of the Green Growth transition agenda on the continent. Mozambique's diverse natural, human and economic capital endowment is capable of providing multiple revenue streams across various sectors. The GoM is taking determined steps for inclusion of Natural Capital valuation into its economic planning system. The Bank is to continue its support for this agenda, including through a technical advisory and knowledge products on Natural Capital, as well as providing advisory services to guide key chances on natural gas exploration. *iv) Portfolio performance.* The Bank will reinforce country dialogue towards the improvement of efficiency and performance of the Bank's portfolio of projects.

4.6 Bank Group Resources

62. **The CSP's main financing envelope will be a limited ADF-14 allocation and co-financing[59].** The available resources are from the ADF-14th cycle (2017-19) of UA 56.3 million and the next full ADF-15 cycle (2020-22), as well as the financing through the ADB window for non-sovereign projects. The financial allocation to Mozambique, the access to the ADB and ADF windows and the grant/loan mix within the ADF window are driven by the Bank credit policy as it relates to the evolving country credit conditions. As made clear in the CSP document, Mozambique cannot currently access the ADB sovereign window due to the unsustainability of public debt. However, as the Government implements fiscal consolidation and negotiate with creditors for a debt restructuring, and the first batch of gas production comes on line to boost GDP, credit conditions might evolve over the course of the CSP, and therefore the document leaves open the possibility of an eventual access to the ADB sovereign window in the outer years of the strategy period. This is expected to support dialogue with government on the necessary policy measures towards improving credit conditions and the mix of grant and loans within the ADF window is also determined by debt dynamics. In 2018, the allocation still envisages a 50% mix of grants and 50% of highly concessional loans. As the country debt distress status is been confirmed by the recently published Debt Sustainability Assessment, the

mix will move to a 100% grant allocation in 2019. From 2020 onwards, financing will take place under the new ADF 15 cycle. The mix grant/loan will be determined on the basis of the Bank's credit policy and ADF allocation rules. The limited financial envelope means that the CSP emphasizes co-financing and resource mobilization as a key element of delivery.

63. **In accordance with the Bank's new credit policy, Mozambique is not in a position to be eligible for accessing sovereign non-concessional ADB resources.** Close dialogue with the GoM will be undertaken to assist in addressing key macroeconomic constrains, in particular debt management and effective domestic resource mobilization, in particular regarding the Natural Resources sector, towards the long-term aspiration of accessing ADB sovereign funding. In this view focus is placed on leveraging Private Sector funding, including through platforms such as the African Investment Forum. A specific goal of the CSP is the crowding-in of resources by co-financing both from global development and thematic financing mechanisms, including the Agricultural Transformation (TAAT) initiative, the EU's PAGoDA (Pillar Assessed Grant or Delegation Agreement), and the Global Climate Fund (GCF).

5 IMPLEMENTATION ARRANGEMENTS

Monitoring and Evaluation

64. **The monitoring, tracking and evaluation of the CSP and its implementation will be based on the following mechanisms**: (i) at the national level both through the GoM program implementation monitoring through the PQG monitoring matrix; and (ii) through the Country Performance Engagement Matrix (see Annex III) according with the new Results Tools developed by Operations Committee Secretariat And Quality Assurance department (SNOQ). A traditional Results Based Logical Framework is also provided (see Annex IV – Results Based Framework). At CSP mid-term in 2020, a review will provide an opportunity to reassess and if needed realign the strategic goals with government priorities. At CSP completion in 2022, a Completion Report will be prepared with a detailed performance analysis and the results achieved. Finally, through continuous country dialogue, with a monthly, quarterly and annual periodicity, the GoM and the Bank monitor and track project implementation progress.

Risks and Mitigation Measures

65. **The most relevant risks for the Bank's operations derive from the political-military situation.** Added risks also pertain to perennial implementation issues that are being addressed by the Country Portfolio Improvement Plan. For a detail list of specific risks and respective mitigation measures please see Annex XIV – Country Strategy Paper Risk Mitigation.

6 CONCLUSIONS AND RECOMMENDATIONS

Conclusions

66. **Mozambique is at the doorstep of an economic and social transition brought upon by the natural resources exploration.** However, the continued challenge will be the achievement a green and inclusive growth model, through a structural transformation and industrialization that can provide sufficient job opportunities for the rural population to evade poverty, fostering human development, and ensure a sustainable management of natural resources and its revenues. The Bank is well place to assist the country with a focused approach and specific competitive advantages.

Recommendations

67. The Boards of Directors approval is sought for the Bank's CSP 2018-22 for Mozambique and its 2 pillars: **1) Development of infrastructure to enable transformative inclusive growth and job creation;** and **(2) Support to agricultural transformation and value chain development.**

Annex I - CSP 2018-22 Three-year Rolling Indicative Country Business Program

Indicative Project Pipeline & Details	Year	High5	Sector	Scope	Instrument	ADF Resources	Reg. Loan	Reg. Grant	ADB Sov.	ADB Non-Sov.	Other Financing	Co-Financing	Total Project
PILLAR 1 - Development of infrastructure for broad inclusive growth - The sustainable growth and quality improvement of essential and vital socioeconomic infrastructure for the promotion of private sector productive activities, with priority to studies, construction, rehabilitation and maintenance of large social and economic impact infrastructure, especially hydro-agricultural, urban and rural water supply, dams, roads and bridges. [GoM PQG 4th Priority]													
SEFA support feasibility study for EleQtra Windfarm in Namacha	2018	Light-up	Power	Nat.	TA	-	-	-	-	-	0.6	-	0.6
National Control Centre/Temane Transmission Line	2019	Light-up	Power	Reg.	Investment	20	30	-	-	-	0.2	-	50.2
Mueda - Negomano Phase II	2020	Integrate	Transport	Nat.	Investment	30	-	-	-	-	-	-	30
PILLAR 2 - Support to agricultural transformation - To increased employment and production as well as improving the competitiveness of the national economy and business, driven by the market-oriented agriculture, with strong involvement of the family and the private sector to generate jobs and income, ensuring food and nutritional security, the provision of raw materials for the domestic industry and generate surpluses for export. [GoM PQG 3rd Priority]													
Drought Recovery and Agriculture Resilience Project	2018*	Feed	Agriculture	Nat.	Investment	10	-	-	-	-	-	-	10.6
Support to Skills Dev. for Agriculture and Industry Project – Unilurio	2018*	Feed	Skills	Nat.	Investment	10	-	-	-	-	-	-	10
Baixo Limpopo Enable Youth Employment Project	2018	Feed	Agriculture	Nat.	Investment	15.9	-	-	-	-	-	-	15.9
Beira Staple Commodities Processing Zone project	2020	Feed	Agriculture	Nat.	Investment	13	-	-	-	-	-	-	13
Knowledge Products	**Year**	**High5**	**Sector**	**Scope**	**Instrument**	**ADF Resources**	**Reg. Loan**	**Reg. Grant**	**ADB Sov.**	**ADB Non-Sov.**	**Other Financing**	**Co-Financing**	**Total Project**
Unlocking private sector development – a Blended Finance	2018	Feed	Nat. Res.	Nat.	Knowledge	-	-	-	-	-	0.06	0.02	0.08
Macroeconomic stability Knowledge Program	2018	Improve Lives	Macro	Nat.	Knowledge	-	-	-	-	-	0.1	-	0.1
Preparation Pemba - Palma Integrated Management	2019	Improve Lives	WS&S	Nat.	Knowledge	1	-	-	-	-	-	-	1
Knowledge Program on Natural Resources	2019	Improve Lives	Nat. Res.	Nat.	Knowledge	-	-	-	-	-	0.1	-	0.1
Agriculture Public Expenditure Review	2020	Feed	Agriculture	Nat.	Knowledge	-	-	-	-	-	0.2	-	0.2
ADB Reserve Pipeline**	**Year**	**High5**	**Sector**	**Scope**	**Instrument**	**ADF Resources**	**Reg. Loan**	**Reg. Grant**	**ADB Sov.**	**ADB Non-Sov.**	**Other Financing**	**Co-Financing**	**Total Project**
Mueda - Negomano Phase II	2020	Integrate	Transport	Nat.	Investment	-	-	-	43	-	-	-	43
Pemba - Palma Integrated Urban and Water Management	2020	Improve Lives	Urban	Nat.	Investment	-	-	-	25	-	-	-	25
COFAMOSA Irrigation Scheme	2020	Feed	Agriculture	Nat.	Investment	-	-	-	17	39	-	-	56
Value Chains & Market Dev. Prog. for Pemba-Lichinga Corridor	2020	Feed	Agriculture	Nat.	Investment	-	-	-	100	-	-	-	100
STE Backbone Project	2020	Light Up	Power	Reg.	Investment	-	-	-	73	-	-	-	73

* Project already approved at the Board, on the basis of CODE strategic pillars clearance.

** Non-sovereign operations pre-PEN stage have not been inserted.

Annex II – Strategic Alignment Matrix

PILLAR 1: DEVELOPMENT OF INFRASTRUCTURE FOR BROAD INCLUSIVE GROWTH

MOZAMBIQUE	AFRICAN DEVELOPMENT BANK
National Development Plan:	**Corporate policies:**
ENDE National Development Strategy: - **Pillar 2:** Infrastructure development *Plano Quinquenal de Governo:* - **Objective 3**: Economic and social infrastructure development	*High 5 priorities:* - ***Light-up and Power Africa:*** Mobilizing domestic and international capital for innovative financing in Africa's energy sector - ***Integrate Africa***: Building regional infrastructure *Ten Year Strategy (2013-2022):* - ***Operational Priorities:*** Infrastructure development and regional integration - ***Areas of special emphasis:*** Fragile situations
Country Sector/Thematic Strategy:	**Bank Sector / Thematic Strategy:**
Master Plan for Development of the National Grip: - Connect all the provincial capitals to the main grid - Increase the number of customers with access to electricity *Green Economy Action Plan:* - Development of sustainable infrastructure (transport, energy and urban) *The 10-year Integrated Program for the Road Sector:* - Connecting the disperse areas of the country to ensure social inclusiveness - Access of agricultural and natural resources areas to the ports and overseas markets - Country's strategic location as a regional hub	*Bank Group Strategy for the New Deal on Energy for Africa strategic themes (2016-2025):* - Increasing funding pool to deliver new projects; - Rolling out waves of country-wide energy "transformation" *Green Growth Framework focus areas:* - Sustainable infrastructure - Efficient & Sustainable use of natural assets *Regional Integration Policy and Strategy pillars:* - Power and Infrastructure (Transport and ICT) Connectivity - Trade and Investment

Country Development Results/Indicators:			Bank's interventions & resources:	
Indicator	**Baseline (2018)***	**Target (2022)**	**Generic areas of interventions or instruments**	**Amount (m UA)**
Energy			**High-5: Interventions in the Energy**	
Population electricity access (%)	26	35	Infrastructure investment projects	65
Population off-grid electricity access (# households)	300,000	1,200,000	Partial Risk Guarantee	22
CO^2 intensity (kg per kg of oil equivalent energy use)	0.74	0.73	Non-Sovereign lending	278
Transport/Integration			**High-5: Interventions in integration**	
Railways, goods transported (million ton-km)	1193	1300	Corridor investment project	45
Container port traffic (TEU: 20 foot equivalent units)	348,550	400,000	Knowledge products	1
Logistics performance index (1=low to 5=high)	2.68	3.0	Water investment projects	40

PILLAR 2: SUPPORT TO AGRICULTURAL TRANSFORMATION				
MOZAMBIQUE			**AFRICAN DEVELOPMENT BANK**	
National Development Plan:			**Corporate policies:**	
ENDE National Development Plan 2025: - **Pillar 1:** Human capital development, priority area agriculture and fisheries *Plano Quinquenal de Governo:* - **Objective 3:** Economic and social infrastructure development			*High 5 priorities:* - ***Feed Africa:*** Feeding and lifting people out of poverty. - ***Improving quality of life:*** Building critical skills *Ten Year Strategy (2013-2022):* - ***Operational priorities :*** Skills and technology - ***Area of special emphasis***: Agriculture, food security, gender and fragile situations	
Country Sector/Thematic Strategy:			**Bank Sector / Thematic Strategy:**	
Green Economy Action Plan: - Efficient and sustainable use of natural resources (water, land for agriculture, forests, fisheries, tourism, minerals and other natural resources) - Strengthening of resilience and adaptive capacity to socio-economic shocks and climate variability *Strategic Plan for the Development of the Agrarian Sector (PEDSA) 2011-2020*: - Productivity - Market Access - Natural Resources *National Employment Strategy:* - Creation of new jobs (local content; green jobs; youth employment) - Sectoral policy harmonization (agriculture and fisheries)			*Feed Africa – Strategy for Agricultural Transformation in Africa (2016-2025) goals:* - Become a net exporter of agricultural commodities - Move to the top of key agricultural value chain. *Green Growth Framework focus areas:* - Resilient Livelihoods and Economic Sectors & Inclusiveness of Green Growth *Jobs for Youth in Africa (2016-25) interventions*: - Integration - Innovation *Industrialization Strategy for Africa (2016-2025) pillars:* - Enterprise development along the value chain	
Country Development Results/Indicators:			**Bank's interventions & resources:**	
Indicator	**Baseline (2018)***	**Target (2022)**	**Generic areas of interventions or instruments**	**Amount (m UA)**
Agriculture sector			**High 5: Interventions in Feed Africa**	
Employment in agriculture (% of total employment)	75	77	Investment in Agriculture	99
Agriculture value added (constant 2010 US$ p/w)	332	400	Knowledge products	0.3
Agricultural land (sq. km)	499.500	520.000		
Education sector			**High 5: Interventions in improving lives**	
Secondary education, vocational pupils	52,400	65,000	Investment in Education	10
Secondary education, vocational pupils (% female)	34	45	Knowledge products	0.1
Tertiary School enrolment (% gross)	6.4	7		
Tertiary School enrolment (Gender Parity Index)	0.73	0.76		

Annex III – Country Engagement Performance Matrix

Performance areas	Monitoring indicators	Baseline (2018)	Target (2022)	Source
Operational results	Railway built & rehabilitated (km) Road upgraded (km) Dam operation efficiency (million m3) Developed Irrigation areas (Ha) Areas of Forest Restored ((Ha) Schemes for vegetables developed (Ha) Poultry producers that receive start-up packages (#) Farmers trained, of which are men (#) - of which women (#) Business management training for nutrition trainers (# of women) Job centres supported with IT equipment training workers (#) - of which women (#)	0 0 1.5 250 350 34,500 400 0 0 1,920 0 0	900 500 2.9 550 1500 40,000 1000 2000 1,200 2,500 5,000 2,500	Project Status, Supervision and Completion reports
Portfolio performance	Flagged projects (#) Portfolio performance (1-4) Projects-at-risk (#)	13 2.74 3	6 3 0	Country Portfolio Performance Review (CPPR)
Leverage and parallel financing	Public and private leveraging (million UA)	0	250	Project Appraisal Reports
Knowledge work & policy advice	ESWs produced (#)	0	5	Mozambique Country Office Annual Report
Coordination with government and partners	Working groups chaired by the Bank (#) Working participated by the Bank (#) Quarterly Portfolio follow up joint meeting	0 2 0	1 2 4	Mozambique Country Office Annual Report BTOR of Portfolio Follow up mission
Internal efficiency	Time from approval to first disbursement (average months) Lapse of time for procurement of goods and works (average months) Lapse of time for procurement of services (months) Operations decentralized COMZ	7 9 8 10	6 7 6 19	Mozambique Country Office Annual Report List of ongoing projects by Task Manager.

Annex IV – Results Based Framework

The relevant High 5 corporate strategy that each indicator contributes to is indicated in brackets: **NDEA** = New Deal on Energy for Africa (2016-25); **ATA** = Agricultural Transformation in Africa (2016-25); **ISA** = Industrialization Strategy for Africa (2016-25); and /**JfYA** = Jobs for Youth in Africa (2016-25)

Strategic Objectives (5PQG)	Constraints hindering achievement of desired outcomes	Final Indicators (by end-2022)		Midterm Indicators (by end-2020)		Bank Group Interventions during CSP period (on-going & proposed)
		Outcomes	Outputs	Outcomes	Outputs	
Pillar I: Development of Infrastructure for Broad Inclusive Growth						
Energy & Integrated Development Corridors						
The sustainable growth and quality improvement of essential and vital socioeconomic infrastructure for the promotion of private sector productive activities, with priority to studies, construction, rehabilitation and maintenance of large social and economic impact infrastructure, especially hydro-agricultural, urban and rural water supply, dams, roads and bridges.	Inadequate generation, transmission and distribution infrastructure Skills and competences to manage complex projects and contracts in Mozambique is low Rate of assimilating women into construction and installation activities in the energy sector may be challenging due to cultural stereotyping of the genders.	International demand for the Cahora Bassa Hydroelectric dam diversified, as Mozambique has increased capacity to export to Malawi. It is estimated that Malawi will pay Mozambique about USD 0.5 billion per month for its electricity. (**NDEA**/**ATA**/**ISA**/**JfYA**)	200 MW added transmission capacity to the national grid, diversifying international demand for the Cahora Bassa Hydroelectric dam (**NDEA**/**ATA**/**ISA**/**JfYA**)			**Proposed new lending interventions:** National Control Centre Project
		EDM's operations are profitable, allowing the utility to expand its assets (**NDEA**)	EDM's operating margin is positive (**NDEA**)	New tariffs and concession approaches enable EDM's operating margin to decrease from -8% to break-even point. EDM is not operating at loss anymore, allowing the utility to invest in its assets (**NDEA**)	Studies on cost of supply, pricing, conflict regulation and market baseline to underpin CNELEC/ARENE scope of interventions Redesigned licensing process through legal support (**NDEA**)	**Ongoing lending interventions** Enabling Large Scale Gas and Power Investments (ELSGPI) TA project **Proposed new non-lending intervention** New TA project - Enhancing the operational and legal capabilities of the new Power Sector Regulatory Authority (CNELEC/ARENE) to redesign the concession approach, issuance of licensing, and set appropriate tariffs
		No updated outcome – project will end in Q2 2019.		The 60 MW project producing 235 GWh p.a. substitutes same amount of coal-generated power, reducing greenhouse gas emission by 216,000 tons of CO_2 per year. (**NDEA**) Savings for GoM and EDM will amount to \$42m per year, improving the utility's		**Ongoing non-lending intervention** Sustainable Energy Fund for Africa (SEFA) grant for the supporting the implementation of REFIT

Strategic Objectives (5PQG)	Constraints hindering achievement of desired outcomes	Final Indicators (by end-2022)		Midterm Indicators (by end-2020)		Bank Group Interventions during CSP period (on-going & proposed)
		Outcomes	Outputs	Outcomes	Outputs	
				sustainable operations and the country's public finances.		
		Reduced GHG emissions Generate revenues for the Government	Diversified energy sources to cleaner alternatives	Job creation during construction Generate revenues for the Government	60MW of additional wind installed capacity	**Proposed new non-lending intervention** Sustainable Energy Fund for Africa (SEFA) grant for the preparation of feasibility study for EleQtra Wind in Namaacha
		Generate revenues for the Government	The project	**Job creation during construction** 8,500 jobs created during construction Will produce gasoil to meet the needs of 200,000 people GDP impact USD 20 bn over the project life	400MW of additional installed capacity	**Proposed new lending intervention** Temane 400MW gas to power project PRG to support payment obligation of EDM on Temane generation project; PCG to support securitization of HCB to on-lend to Temane transmission line project Gas to Liquid Project sponsored by Shell Gas to Fertiliser Project sponsored by Yara
		Reduced GHG emissions Generate revenues for the Government	Diversified energy sources to cleaner alternatives	Job creation during construction Generate revenues for the Government	120MW of additional wind installed capacity	**Proposed new lending intervention** Quantum Power - Namaacha 120MW wind project Senior debt to SPV PRG to back up EDM's payment obligation

Strategic Objectives (5PQG)	Constraints hindering achievement of desired outcomes	Final Indicators (by end-2022)		Midterm Indicators (by end-2020)		Bank Group Interventions during CSP period (on-going & proposed)
		Outcomes	Outputs	Outcomes	Outputs	
Pillar II: Support to agricultural transformation						
Employability & Value Chains						
To increased employment and production as well as improving the competitiveness of the national economy and business.	Low use of irrigation, improved inputs and more developed technics High transaction costs and enhancing the efficiency along the supply chains	Rice yields increased from 1 to 3 ton/ha Vegetable yield increased from 10 to 15 to/ha Livestock increased by 10%. Annual incomes increased of small-holder farmers and rural entrepreneurs from USD500 to USD800	10000 ha of irrigation area 20000 farmers received access to irrigation/inputs/extension services. 10000 farmers having adopted improved technologies 40 km of rural roads constructed & rehabilitated Three market linkages supply contracts with at least three market chain established.	Rice yield increased from 1 to 2 ton/ha Vegetables yields increased from 10 to 12 to/ha Livestock increased 5%. Annual incomes increased of small-holder farmers by US$ 100	4000 ha of irrigation area 8000 farmers received access to irrigation/inputs/extension services 5000 farmers adopted improved technologies 25 km of rural roads constructed & rehabilitated Three market Linkages (rice, vegetable and livestock) supply contracts with at least three market chain pré-established.	**Proposed new lending intervention** Drought Recovery and Agriculture Resilience Projec(*)t Lower Limpopo Agriculture Value Chain and Enable Youth Project Cofamosa Irrigation Project PPF for Value Chain for Pemba Lichinga Corridor **Ongoing non-lending intervention** Baixo Limpopo Irrigation and Climate Resilience Project Sustainable Land and Water Management Project Massingir Dam Emergency Project
	Skills mismatched along the agriculture value chain Provision of public agricultural	Quality and relevance knowledge on agriculture and science fields improved Environment for labour policy reforms in the agriculture sector improved	1400 Man & 500 Women graduated in agriculture and science fields Labour Market Information System established Finalized implementation of electronic platform for the collecting and processing of statistical data on the labour market	Quality and relevance knowledge agriculture and science fields improved Environment for labour policy reforms in the agriculture sector Improved	750.Man & 200 Women graduated in agriculture and science fields Labour Market Information System being implemented Development of electronic platform for the collecting and processing of statistical data on the labour market	**Proposed new lending intervention** Unilúrio-support to skills development for agriculture and infrastructure project(*) Job Creation and Livelihood Improvement Project

(*) Note: These projects have been approved in January 2018, in alignment with the proposed strategic pillars of this CSP.

Annex V - Bank Group's Portfolio of Approved and Ongoing Operations

N	Division	Project Name	Status of Project	Sector Name	Window	Approval date	Planned project completion date	Amount App.	Amount Dis.	Disbursement Ratio	IP	DO	Age
1	AHAI	COFAMOSA IRRIGATION PROJECT - PPF	OnGo	Agriculture	[ADF]	24-11-15	30-12-18	0.8	0.2	0.0			2.0
2	AHAI	EMERGENCY HUMANITARIAN RELIEF ASSISTANCY DROUGHT DISASTER	OnGo	Agriculture	[OTHERS]	17-06-16	31-12-16	0.7	0.0	0.0			1.4
3	AHFR	MASSINGIR DAM EMERGENCY REHABILITATION PROJECT	OnGo	Agriculture	[ADF]	15-07-09	30-06-19	13.3	12.6	94.7	2.31	3.00	8.4
4	AHFR	MASSINGIR DAM EMERGENCY REHABILITATION PROJECT SUPPLEMENTARY	OnGo	Agriculture	[ADF]	22-05-13	30-06-18	22.0	15.2	69.2			4.5
5	AHAI	BAIXO LIMPOPO IRRIGATION & CLIMATE RESILIENCE PROJECT	OnGo	Agriculture	[ADF]	26-09-12	30-06-19	16.5	13.0	78.7			5.2
					[OTHERS]	26-09-12	30-06-19	9.3	4.9	52.4			5.2
					[OTHERS]	26-09-12	30-06-19	2.0	0.1	7.2			5.2
				Agriculture				**64.6**	**46.0**	**71.2**			**4.3**
6	AHAI	SUSTAINABLE LAND & WATER RES. MGT PROJECT (SLWRMP) PPCR	OnGo	Environment	[ADF]	31-10-12	31-12-18	2.1	1.6	77.2			5.1
					[OTHERS]	31-10-12	31-12-18	11.2	6.1	54.2			5.1
				Environment				**13.3**	**7.7**	**57.8**			**5.1**
7	PISD	AFRICA SME PROGRAM LOC - MOZABANCO S.A MOZAMBIQUE	OnGo	Finance	[ADB]	11-04-14	27-03-20	6.4	6.4	100.0	1.67	0.75	3.6
				Finance				**6.4**	**6.4**	**100.0**			**3.6**
8	PISD	MOMA MINERAL SANDS PROJECT	OnGo	Ind/Mini/Quar	[ADB]	21-05-03	31-12-08	28.6	28.6	100.0	2.00	1.75	14.5
				Ind/Mini/Quar				**28.6**	**28.6**	**100.0**			**14.5**
9	PITD	NACALA CORRIDOR BUSINESS LINKAGES PROGRAM	APVD	Multi-Sector	[ADF]	14-06-17	09-01-20	0.7	0.0	0.0			0.4
				Multi-Sector				**0.7**	**0.0**	**0.0**			**0.4**
10	RDGS4	ELECTRICITY IV PROJECT	OnGo	Power	[ADF]	13-09-06	31-12-16	26.3	24.3	92.5	2.71	2.75	11.2
					[OTHERS]	07-09-06	31-12-16	7.4	0.0	0.0	2.71	2.75	11.2
11	PESD	ENABLING LARGE SCALE GAS & PWR INVESTMNT	OnGo	Power	[ADF]	18-12-13	30-06-18	10.0	0.1	1.0			3.9
				Power				**43.7**	**24.4**	**55.9**			**11.2**
12	AHHD	CONSOLIDATION WOMEN'S ENTREPRENEURSHIP	OnGo	Social	[ADF]	18-12-13	31-12-18	1.2	0.7	58.6			3.9
					[ADF]	18-12-13	31-12-18	2.6	0.8	33.1			3.9
13	AHHD	JOB CREATION AND LIVELIHOOD IMPROVEMENT PROJECT	OnGo	Social	[ADF]	18-05-16	30-12-21	4.5	0.4	8.0			1.5
				Social			**31-12-22**	**8.3**	**1.9**	**23.3**			**2.7**
14	PICU	MUEDA - NEGOMANO ROAD PROJECT PHASE I	APVD	Transport	[ADF]	09-12-16		51.3	0.0	0.0			1.0
					[ADF]	09-12-16	31-12-22	2.2	0.0	0.0			1.0
15	PICU	MONTEPUEZ-LICHINGA ROAD PROJECT	OnGo	Transport	[ADF]	27-10-06	31-12-22	30.1	20.0	66.6	2.07	2.75	11.1
					[OTHERS]	19-03-07	30-06-18	20.6	0.0	0.0	2.07	2.75	10.7

16	PICU	SUPPLEMENTARY LOAN TO MONTEPUEZ - LICHINGA ROAD PROJECT	OnGo	Transport	[ADF]	26-10-10	30-06-18	32.7	21.9	67.1	2.50	2.75	7.1
17	PICU	NACALA TRANSPORT CORRIDOR PHASE-III	OnGo	Transport	[ADF]	05-12-12	30-06-18	38.7	5.2	13.6			5.0
					[ADF]	05-12-12	31-12-18	0.2	0.0	18.8			5.0
18	PICU	MULTI-NACALA CORRIDOR PROJECT (MOZAMBIQUE)	OnGo	Transport	[ADF]	24-06-09	31-12-18	102.7	45.6	44.4	2.36	2.75	8.4
				Transport				**278.4**	**92.8**	**33.3**			**8.6**
19	AHWS	FEASIBILITY STUDIES FOR BUILDING CLIMATE RESILIENCE OF LIMPO	OnGo	Water Sup/Sanit	[OTHERS]	01-12-14	31-12-19	2.8	0.7	26.2			3.0
					[OTHERS]	03-10-14	31-12-19	0.7	0.1	10.5			3.1
20	AHWS	URBAN SANITATION, DRAINAGE AND SOLID WASTE MANAGEMENT IN CHI	APVD	Water Sup/Sanit	[OTHERS]	14-07-16	30-06-19	1.3	0.0	0.0			1.4
				Water Sup/Sanit				**4.8**	**0.8**	**16.9**			**2.5**
				Total				**448.9**	**208.7**	**46.5**			**5.8**

* The on-going and approved list of operations as of December 1st 2017 in accordance with the CPPR.

Annex VI – Country Contextual Analysis

Economic Context

Economic Structure

Mozambique is a Low Income Country with a Gross National Income per capita of only USD 460 dollars[2] despite impressive growth for almost 2 decades, ranking the country 44th out of 54 African countries. The country's economy has undergone little structural transformation and industrialization over the years. During the last two decades the structure of the economy remained by and large unchanged, registering even a slight de-industrialization (outside the extractive industries) and featuring a narrow export base and limited integration into global value chains. Overall GDP composition has remained broadly stable since 2000[3]. The *Agriculture and Fisheries* sector's share of GDP stood at 24.9% in 2016, compared to 20.5% in 2000. The sector experienced a pronounced decline in importance in the years after the end of the civil war, from 33% of GDP in 1995 to 21% in 2000, as other sectors recovered quickly. With 74.6%, it employs the bulk of the country's work force (2015) and is marked by low-productivity subsistence-type production patterns and limited value-chains. Mozambique has to import a significant share of its food (5% of imports, 2016). Main cash-crops are tobacco, banana, cashew, and cotton. Sugar is the only meaningful processed export product. The *Industry/Manufacturing* sector contributes a meagre 9.6% of GDP in 2016,, and employs only 3% of the work force. The Mozal[4] USD 1 billion aluminium smelter project, i.e. the first so-called Megaproject in Mozambique, boosted the sector's share from 14% of GDP in 1995 to 20% in 2000. However, since then, the sector experienced a continued decline in its relative share in GDP from 18% to 9.6% in 2016, mainly due to continued sluggish performance of the few SMEs[5], while other sectors of the economy expanded. Also, during this period the *Services* sector's contribution to GDP increased from 52.6% to 55.4% on the back of public sector expansion, increased urban consumption and services to megaprojects[6]. However, the sector currently employs just 22% of the labour force and its main contribution to GDP stems still from micro scale retail businesses (12% of GDP) with tiny profit margins, and few opportunities of saving and investing. Other increasingly relevant sub-sectors are financial services with an increase from 2.4% to 4.9% of GDP, and education which expanded from 4.1% to 8.2% of GDP. The progressive increase in the state apparatus pushed the public administration weight in GDP from 3.6% in 2000 to 6.5% in 2016. From 2010 to 2016 the *Extractives Industries* sector ingrained its economic importance in the country expanding from a marginal 2% to 6.3% of GDP, which mainly reflects the commencing of large scale coal exports. Notwithstanding, other relevant extractive products are titanium, graphite, gem stones and especially natural gas.

The country has been following a typical pattern of factor driven economies, with FDI focusing in extractive industries, while infrastructure, innovation and higher education and training are underdeveloped, curtailing labour productivity. Megaprojects had limited impact on government

[2] The strong fluctuations in the Metical valuation against the US dollar since 2014 have severally impact the country's GDP and GNI valuation in US dollar terms. Despite still achieving an average GDP real growth rate per year of 5.3% between 2014 and 2016, in US dollar terms Mozambique's GDP came from USD 16.9 billion in 2014, to USD 14.5 billion in 2015, and USD 11 billion in 2016.

[3] Given the overweight of the Agriculture sector and the Mozal Aluminium smelter plant within the Manufacturing sector (i.e. 80% of the sector and 25% of the countries exports), annual GDP composition are vulnerable to temporary oscillations in agriculture productive season and world aluminium prices. The devastating floods that occurred in the beginning of 2000 curtailed GDP growth to 2.1% in that year, mostly affecting agriculture production, and distort the GDP composition of 2000. In 2002 the agriculture sector had recovered completely and represented 24% of GDP.

[4] The Mozal aluminum smelter plant project was Mozambique's first megaproject after independence. The USD 1 billion investment made by BHP Billiton in 1998 is regarded as the opening door of the Mozambican economy to large FDI.

[5] Only 0.7% of enterprises qualify as Small enterprises (5-49 employees) and 0.02% are of medium size (50-100 workers).

[6] The Mozal project was followed by several multi-billion dollar large-scale export-oriented projects financed by foreign capital in the natural gas (2001), titanium (2005) and coal (2005, 2007), that are known locally as "megaprojects", and serve as catalyser for economic growth.

revenues[7], employment creation and linkages to the real economy. From 2000 to 2015 the work force in agriculture decreased from 85% to 74.6%, although in absolute numbers remained approximately the same. A third of GDP is produced by less than 5% of the workforce, while 75% of exports are directly attributed to around 1%. The export base is narrow with four sectors accounting for 70% of exports (aluminium 25%, coal 20%, electricity 10% and natural gas 8%). The limited diversification of exports, largely of raw materials with barely any value addition, reflects the low productivity and competitiveness across the rest of the economy, leaving the country susceptible to external shocks. The existing challenges on economic transformation are to be aggravated by the potential negative effects associated with a fast expanding extractive sector[8], climate change and quick population growth.

Spatial Challenges of Growth

Mozambique's population is scattered through its relatively large territory, which poses challenges to spatially balance pro-poor inclusive growth. The country has an area of nearly 800,000 km2 and 2,300 km of coastline. The population of 28.8million is the 2nd largest in the southern Africa region, with a progressive youth bulge of 45% of population below 45 years of age. The current annual population growth rate of 4% will place Mozambique as the 11th most populous country in the continent by 2040. The urban population is increasing rapidly, despite a relatively low rural-to-urban migration rate of just 0.4%, benefiting from better public service delivery which accentuates inequalities. Economic activity is clustered around the historical west-to-east transport corridors and urban centres, which account for roughly 30% of the total population. Access to the remaining 70% of rural population remains a challenge, hampering public service delivery and market access, while almost two thirds of agricultural land are mostly unused.

Growth Potentials

To promote and accelerate structural transformation, industrialization and higher value added job creation, a more dynamic SME fabric will be needed, particularly in the rural areas. The most promising path to industrialization relies on upscaling agro-processing and the deepening of agriculture value chains, but also light industries (e.g. textile, packaging, basic consumer goods, plastics) and to competitively substitute imports, as well as throughout the downstream of the natural gas value chain. Deeper integration between regions and the removal of barriers to trade to improve access to local and regional markets would further improve the environment for industrialization. At the same time, the connectivity between the underdeveloped rural areas with the development corridors needs to be strengthened, to facilitate the mobility of the workforce, promoting backward and forward linkages, and improving access to markets. To this end, there is a need for increased investment in infrastructure, notably in energy and transport to promote competitiveness, as well as to support agro-industries in rural areas[9] based on agro-pole development, which would help address spatial inequalities. Also, to fully reap the benefits of Mozambique's rich endowment with natural resources, it is necessary to strengthen the country's governance framework for the Natural Resource sector, including institutional setup and regulatory reforms for the effective use of its revenues.

[7] The fiscal framework provided to megaprojects typically included generous tax holidays or even tax exemptions. The Mozal project is estimated to pay around 1% of its profits in taxes (Oneworld, 2013).

[8] AfDB 2013 - Policy Issues Note - Managing Revenues and Optimizing the Benefits of Coal And Gas Resources In Mozambique.

[9] Integrated agricultural development can benefit from the creation of Staple Commodities Processing Zones (SCPZ). SCPZ are agro-based spatial development initiatives, designed to concentrate agro-processing/industrial activities within areas of high agricultural potential to boost productivity and integrate production, processing and marketing of selected agro-commodities. SCPZ will provide an ecosystem where shared facilities allow the interplay of agricultural producers, processors, aggregators and distributors to operate in the same vicinity to reduce transaction costs and share business development services for increased productivity and competitiveness.

Macroeconomic Management

The Central Bank has implemented a restrictive monetary policy that tamed inflation from 25% in 2016, to 7% in 2017, and hold the valuation of the Metical. Benefiting from a strong Metical and foreign currency inflows, inflation remained at an average of 3.7% between 2011 and 2015. The shock to the BoP that started at end-2014 by the abrupt drop of FDI, accentuated by the Hidden-debts crisis, warranted a strong tightening of monetary policy. Between 2015 and 2016 inflation spiked 10-fold to 25%, compounded by the drought effects on agriculture production[10]. Foreign currency reserves declined by 33% and the Metical devalued over 50% against the US Dollar. Tightened monetary policy implemented by the Central Bank[11] starting 2016 has proved to be adequate to stabilize the currency and inflation. The Central Bank increased its lending facility rate[12] from 9.5% to 23.25%, and enforced foreign exchange outflows controls. Since then, and assisted by the influx of foreign currency from large coal exports, the Metical stabilized and inflation abated, but at the cost of a slump in private consumption. Credit to the private sector contracted by 10% in 2017, with average 1-year lending rates hovering at 30%, and the crowding out effect of the trifold increase in public sector domestic borrowing. For the medium term inflationary pressures are to remain subdued in line with the economic activity. Inflation is expected at 6.7% and 5.7% in 2018 and 2019 respectively. However, the monetary policy stance is expected to remain cautiously tight, in face of mounting fiscal risks, constraining credit to the economy.

Mozambique has incurred significant fiscal deficits in recent years, averaging 4.5% of GDP during 2011-17. Despite the ambitious consolidations goals of 6.9% (2018) and 5.6% (2019) the outlook is challenging with a swelling wage bill and elections in 2019. The GoM expanded public expenditure during the economic boom years, benefiting from low debt and generous windfall revenues from capital gains tax[13] that curbed overall deficits. The fiscal deficit averaged a comparatively moderate 3.9% of GDP during the 2011-13 period, increasing to an average of 5.0% in 2015-17. The fiscal consolidation effort started in 2015 was triggered by increased debt levels and soaring costs of funding[14]. Fiscal sustainability was further compromised by the reduction of donor funding in 2016 with the suspension of budget support[15]. As referred, total public expenditure recorded an increasing trend from 31.9% of GDP in 2011 to 39.4% in the election year 2014, before decreasing to an estimated 29.4% in 2017. Expanding current expenditures accounted for the majority of the increase, in particular the wage bill swelling from 8% of GDP in 2011 to 10.9% in 2017. The bulk of the fiscal consolidation was achieved by a reduction in capital expenditure[16] from 16.4% of GDP in the 2014 election year, to an estimated 6.5% if 2017. Further consolidation is challenged by a resilient wage bill, increasing debt servicing costs and the ailing economy. As regards the revenue side, domestic revenues saw a continued upward trend during 2011-14 from 21.3% of GDP to 26.3% due to fiscal reforms and improved efficiency of

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[10] In 2016 food inflation peaked at 46%. The negative effects of the drought caused by the El Niño phenomenon accentuated the inflationary pressures on food prices. Mozambique still imports food (mostly from South Africa, together with the bulk of its consumer goods).

[11] A new central bank governor – Rogerio Zandamela - was appointed in September 2016, replacing Ernesto Goveia Gove, who served as Governor of the Bank of Mozambique for 20 years. The new governor came at a time when inflation had creeped to 20% and the Metical suffered the biggest devaluation against the USD of all African currencies.

[12] The Bank of Mozambique introduced in April 2017 a new Interbank Money Market Rate (MIMO) as the central bank's main instrument of monetary policy. The Central Bank's Lending Facility Rate is calculated on the basis of the MIMO.

[13] Mozambique benefited from windfall revenues from one-off capital gains taxes related to the consolidation of gas ownership structures in the Rovuma Basin. In between 2012 and 2015, more than USD 1.3 billion were received in capital gains tax curbing overall fiscal deficits and boosting foreign currency reserves.

[14] The devaluation of the Metical led to jump in external debt servicing. Furthermore, Donor financing dropped by 5% of GDP in 2016. The result was a large increase in domestic financing with its cost jumping from 10 to 26% between end of 2016 and end 2017. The fast increase in domestic borrowing show the government's difficulty in adjusting expenditure to lower donor funding and controlling public finances.

[15] In face of the "hidden-debts case" Development Partners (DP) providing general budget support (GBS) suspended that modality's disbursements, including AfDB. Overall GBS represented on average 2-3% of GDP and 5-6% of budget. In addition some DPs further suspended disbursements to common funds.

[16] From 2011 to 2015 on average Mozambique managed to allocate annually 13% of GDP to public capital expenditure, a relatively high share compared with other African countries. In 2016-17 capital expenditure was reduced to 4%.

the tax administration. The economic downturn led to a reduction in total revenues[17] since 2014 reaching an estimated 19.6% in 2017. The government does not have in place a medium-term fiscal framework. Furthermore, without access to international markets and donor direct budget support, the fiscal deficit has been financed exclusively through domestic borrowing with soaring costs. Further reform on tax administration efficiency, the updating of customs tariffs, and the increase in auditing and oversight of fiscal benefits could yield increases in revenue, albeit the still limited fiscal base will curtail continued progress in revenue collection. Going forward controlling the wage bill, arrears management and reduced the cost of deficit funding will be crucial.

Mozambique is in debt distress and overall public debt stand at 112% of GDP (2017)[18]. External debt increased from 37.5% of GDP in 2011 to 85.2% in 2017, breaching 4 of the 5debt sustainability thresholds[19], while domestic debt increased from 6.2% of GDP in 2011 to 26.7% of GDP (2017) [20]The country defaulted on its sovereign bond in January 2017 as commercial debt service was considered unsustainable by the Government[21]. It is considered in debt distress by the IMF and rated at Selective Default/Default by Fitch and Moody's, and is not expected to be able to access international financial markets in the medium-term. In addition, appetite from domestic lenders for sovereign debt dwindled leading the Central Bank to hold nearly 50% of government debt, and leaving a reduced space for further domestic borrowing. Nonetheless, the country remains committed to service its debt with sovereign bilateral and multilateral partners.

Private Sector

Mozambique's private sector is still developing, contributing just 65% to GDP, and characterized by low productivity and competitiveness. The sector is dominated by individual entrepreneurs and micro enterprises, with few SMEs[22]. Factor productivity is low and value addition is limited, both in manufacturing and agriculture. Surveys point to companies' low growth rates in manufacturing, with worker median productivity below minimum salary, while the sector's average employment growth slightly decreased during 2006-11[23]. On the other hand, the FDI that was directed towards SMEs during 1992-10 created 19 times more employment than the 70% of FDI in megaprojects[lx]. Agro-businesses are generally constrained by high transport costs due to poor infrastructure (including low access to energy), inefficient ports, increased logistic costs, and costly business environment (tax, corruption, administrative costs, etc.). This is reflected in both the World Economic Forum Global Competitiveness Index 2018 executive survey, where 'Access to Finance' and 'Corruption' remain the most binding constrains for doing business, as well as in the World Bank Doing Business 2018 Index, where 'Enforcing Contracts' and 'Getting Credit' are the most binding constrains. Other significant constraints are inadequate supply of infrastructure services, inefficient government bureaucracy and inadequate educated workforce. Addressing both structural physical infrastructural constrains that can foster productivity, competitiveness and access to markets, as well as legal and regulatory reforms, coupled with the provision of a skilled and adequately trained workforce is critical to enable the

[17] The negative trend in revenue collection derives from lower profits resulting from the economic slowdown, while taxes on goods and services are estimated to reach 43% of total in 2018 a 15% increase led by VAT. In spite of the fast expanding extractive sector, it is yet to generate considerable revenues given the amortization of investment and prior operating losses.
[18] These numbers are World Bank estimates for 2017, and do not include the non-guaranteed debt of public sector companies.
[19] Mozambique breaches 4 of the 5 thresholds for debt sustainability for a low-income country are (value/limit): Present value of PPG/GDP of 67%/40%; PV PPG/Exports of 232%/150%; PV PPG/Revenues 293%/250%; PPG debt service/revenues of 26.5%/20%; On the PPG debt service/Exports ratio Mozambique is slightly below the 20% threshold (18.2%), although it is expected to breach it in the medium term, at thetime of the Mozam Eurobond redemption, reaching 26.4%
[20] Total stock of domestic debt is estimated at USD 3.5 billion. The fast increase in domestic borrowing show the government's difficulty in adjusting expenditure to lower donor funding and controlling public finances.
[21] Commercial debt represents 17% of the USD 10.2 billion overall public and public-guarantee debt, and 7% of GDP.
[22] Individual entrepreneurs represent 93 percent of all enterprises, while micro-enterprises (1-4 employees) account for 6.6 percent and small enterprises (5-49 employees) are 0.7 percent. Only 0.02 percent of enterprises are medium size, employing between 50 and 100 workers.
[23] University of Copenhagen/Ministry of Planning and Development 2012 (excludes the Mozal aluminum smelter plant).

progressive structural transformation and diversification of Mozambique's productive fabric in both manufacturing and agriculture.

Financial Sector

Despite considerable expansion of the Mozambique's financial sector during the last decade, financial inclusion is low. Approximately 70% of Mozambicans are without a bank account at a formal financial institution, while formal credit is only available to 3% of the population. There are 19 registered banks, with total assets representing 67.2% of GDP in 2016. However, the top three banks are accountable for 95% of the sector profits, suggesting a high banking[lxi]concentration, leaving smaller banks vulnerable to the economic downturn. Liquidity in the system is uneven and the Central Bank was forced to bail out a major bank in 2016. Non-performing loans present an increasing trend and were over 10% by June 2017[24]. The Central Bank is also the regulator of the stock exchange, which has only 4 companies listed, with a market capitalization of 4% of GDP. Access to affordable finance remains the top constraint for business development[lxii] as 75% of micro, small, and medium-sized enterprises are financially excluded, in particular in the rural areas. The expansion of the agency banking framework to rural areas, together with innovative systems for collateralization could be important financial inclusion enablers.

Social Context and Cross-Cutting Themes

Poverty and Inequality

Despite high growth rates and a considerable reduction of poverty over time, growth has not been inclusive enough, with poverty remaining pervasive at just below 50% of the population. The latest poverty survey released in 2015 (IOF14)[lxiii], shows a considerable reduction in poverty to 49.2% of the population in 2015, from 69.4% in 1996. This is a positive development vis-à-vis the stagnation observed during 2003-08 at about 54%, but falling short from the MDG target of 40%. From a multidimensional poverty perspective results are encouraging, with a significant increase in the number of people who have gained access to basic services and goods. Schooling enrolment and outcome, health status and housing quality are a few areas where IOF14 has revealed good progress. It should be noted, however, that these results predate the crisis that unfolded after the 2015 events, which may have increased poverty.

Inequality remains high, as the rate of economic growth has been insufficient to cope with demography. The Gini coefficient shows a deteriorating trend over the past 30 years, moving from 0.40 in 1996 to 0.47 in 2015. Responsiveness of poverty to growth has reduced. Over the period 2008-14, the accumulated real GDP growth of about 50% has translated in just a 10% decrease in nation-wide poverty levels. Furthermore, while the poverty rate has fallen, there has been an actual increase in the absolute number of poor people, by more than 700,000 people below the poverty line in rural areas. In addition, recent welfare gains have been obtained in an asymmetric way and in a context of rising inequality between urban and rural areas. The gap in living conditions between the Southern and the Northern regions of Mozambique is widening[25], with a much poorer North (see **Map of Mozambique**). Female-headed household's poverty is also higher[26]. Hence, there is an urgent need for the country to implement stronger pro-poor growth policies to the benefit of the population in particular the rural areas and the Northern provinces.

Mozambique remains one of the least developed countries in the world, with a very low Human Development Index. The country ranked in 2017 181st out of 188 countries on the Human

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[24] World Bank 2017, NPLs increased from 5.2% in January 2017 to over 10% by June 2017, due the economic downturn and higher interest rates, as well as more stringent loan classification and provisions.
[25] Maputo city with a mere 17.4% of poverty contrasts with the 65.3% poverty headcount in the Northern Niassa province.
[26] 57.8% on female against 53.9% for male.

Development Index (HDI). Although Mozambique's life expectancy at birth increased by 12.3 years during 1990-15, it is the "access to knowledge" component of the HDI that pulls down the ranking, showing little improvement: years of schooling have increased by only 2.7 years and expected years of schooling by 5.4 years, both indicators showing signs of stagnation since 2010. Mozambique has not concluded its MDG reporting, but is a signatory of the 2030 Development Agenda, albeit still lacking to draw its national implementation plan towards the SDGs. Public expenditure in social sectors areas has been consistently above 65% of the budget, with a focus on Education and Health[27]. However, the slow rural-urban migration rate coupled with high population growth will continue to add strain to public service delivery, representing a source of fragility throughout the country. High illiteracy and widespread lack of access to education and knowledge are serious barriers to inclusivity, particular in rural areas, also undermining agricultural productivity.

Employment

The fast growing population is pushing unemployment rates higher, in particular for the growing youth. The key challenge is to generate jobs in sufficient number and quality. In 2015 74.6% of working population was occupied in agriculture (83.1% for woman and 65.1% for men), reaching 90.2% in rural areas. Formal employment is mainly provided by the public administration and urban SMEs. Only 8.5% of the work force is employed in private companies, 4.8% in public administration/companies, while 64% are self-employed. Nonetheless, between 1996 and 2015, private sector formal jobs tripled from 4% to 11.2%, mostly in services and construction[lxiv]. There are 18.2% of non-remunerated workers. Rapid population growth is expected to generate an estimated 500,000/year of young people who will seek jobs on the labour market during the next decade. Total unemployment is at 20.7% (19.5% male versus 21.8% female), but youth unemployment (between 15 and 22 years) is 30%, reaching 46.3% in urban areas against 20.9% in rural areas. The promotion of formal wage employment should focus on the barriers to SME development that can generated the necessary proper jobs and specifically in rural areas, where formal job growth has been lower[lxv].

Education and Skills

The low education levels are a major hindrance to employment and productivity. The GoM has been committed to invest in education, with sector expenditure amounting to 6.5% of GDP (2017), which is relatively high in regional terms. These investments are reflected in the rapid increase in the number of Higher Education institutions, from 8 in the 90's to 54 in 2017, reaching of 180,000 students. Also, worth noting is the increase in TVET training with the number of students expanding from 45,000 in 2011 to 64,000 in 2015. However, despite these achievements, Mozambique faces a skills gap, notably in technical skills (light industry and agriculture techniques) and higher education in technical areas (i.e. different engineering areas). Furthermore, recent surveys[lxvi] indicate lacklustre results, at lower education levels, below peer countries. Most children who complete primary school will not have the basic skills required to access future learning, hindering chances of engaging later in small-scale employment creation, and/or enter the labour market.

Gender

Mozambique has been pursuing a female empowerment agenda and achieved commendable progress, but gender inequalities persist. Mozambique has supported the promotion of women in government; passing laws and regulations for woman; launching campaigns to raise awareness of women's rights; and, promoting gender parity in education. As a result of these initiatives, the proportion of women in leadership positions has increased, with currently 39.2% of women in parliament, the 5th highest figure in Africa and 12th highest in the world. Nevertheless, Mozambique fares low on the Gender Inequalities Index[lxvii] ranking 139th out of 159. The main challenges are: (i)

[27] Since 2011, on-budget resources invested in the education and health sectors averaged 6.8% and 3.3% of GDP annually, respectively, surpassing the averages in Sub-Saharan Africa (4% and 2.5% of GDP, respectively (World Bank, 2017).

reducing maternal mortality along with the improving universal access to sexual and reproductive health services (HIV/AIDS); (ii) efforts to guarantee girls retention, progression and success in primary and secondary school levels; (iii) ensure greater access for women to productive resources, in particular land and finance, aimed at reducing poverty levels; and (iv) provide access to employment, water and sanitation and ensure access to food to increase nutrition levels.

Climate Change

Mozambique was ranked 1st country in 2017 in most exposed to risks emanating from climate-change[lxviii]. Mozambique's per capita CO^2 emissions with 0.1 tonnes per year are lower than the average of low-income countries in general (0.3 tonnes). The cost of not inaction on climate change mitigation was estimated at 450 million USD per year[lxix], which is reflected by the country's tendency towards adaptation – instead of mitigation – in its climate change policies and strategies. In 2012, Mozambique developed its 2013-25 National Climate Change Adaptation and Mitigation Strategy Strategic actions, which include forestry measures, developing low-carbon agricultural practices, and reducing deforestation and wildfires, while in 2018 it presented its Nationally Determined Contributions[28]. At institutional level, there is a need for capacity building support in the areas of data collection, early warning systems and readiness to access climate finance.

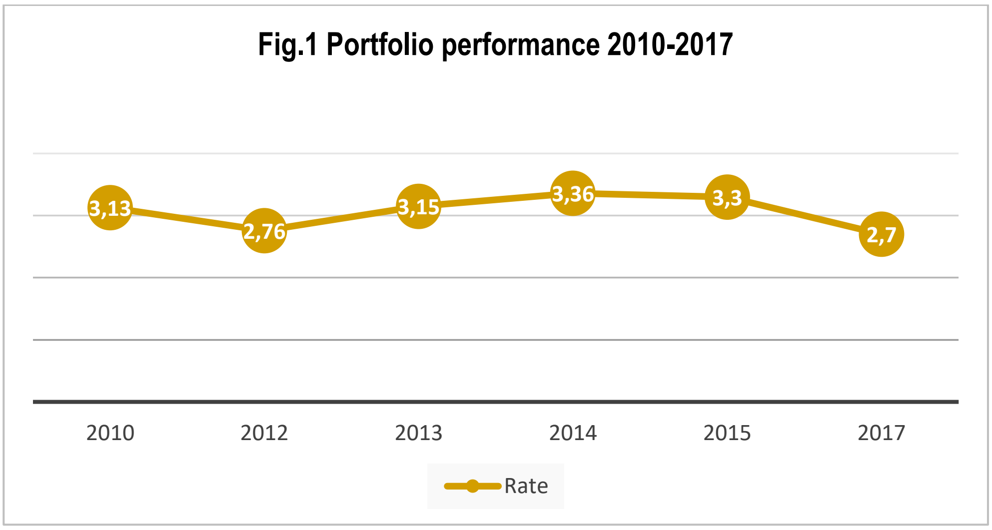
[28] Mozambique presented in February 2018 its intended Nationally Determined Contributions (NDCs), as per UNFCCC (2015) 'Adoption of the Paris Agreement'.

Annex VII – Country Portfolio Improvement Plan

During the Country Portfolio Performance Review (CPPR) the mission held a workshop of interactive sessions with the project implementing units (PIUs), that combined a Fiduciary Clinic, where challenges and issues were identified and solutions discussed (including untimely access to counterpart contribution for VAT, delays in submission of audit reports, quality of financial reports, communication challenges, delays in implementation of audit recommendation, delays in preparation of annual work plans & budget, and control over assets etc). The mission team provided guidance on improving the portfolio performance. The review revealed that there has been some progress achieved towards implementing the 2015 Country Portfolio Improvement Plan (CPIP). However, it was found that while part of the actions has been achieved in some areas like procurement, financial management, most of the issues continued to cause implementation delays and will be carried over in the new CPIP 2017. Below are summarized the main finds of the CPPR that informed the design of the new CPIP 2017.

Overview of Portfolio Performance

The overall performance of the Bank's portfolio using the SAP & Implementation Progress and Results **(**IPR) methodology in Baobab is **2.72** in a scale of 0-4 for 2017 which is assessed "**Satisfactory**". This rating is consistent to the rating of the Flashlight report of October 2017. The trend in the ratings from 2010 to 2017 indicates that the current rating of 2.72 is the lowest of the last five years ratings of the Mozambique portfolio.



The number of operations managed by Mozambique Country Office has gone up from 33% in 2015 to 43% in 2017. The portfolio has one potentially problematic project (PPP) and one problematic project (PP). The PPP project was also classified as PPP in the 2014 portfolio review assessment. Five projects were closed since 2015. Four PCR's were already submitted and one being prepared .Within this period , a total number of 5 operations were approved representing 26% of the current portfolio, as at November 2017, the active portfolio included 4 ageing projects (those over 8 years old). The average age of the portfolio declined from 5.7 in 2010 to 3.6 in 2014 and again increased to 5.2 years in 2017 implying that the current portfolio has projects facing critical time over-run. The ageing projects were all approved during 2003-2009 period, namely: Montepuez-Lichinga Road Project (11.09 years) and Multinational Corridor Project -Mozambique (8.4 years). Two other operations with 11 and 7 years are already in process of completion and will contribute to slight reduce the age of the portfolio.

Mozambique: Key Portfolio Performance Indicators and Ratings			
Selected Indicators Oct 17		**Performance Ratings (SAP/IPPR) 2010-2017**	
Portfolio performance (Flashlight Report) % satisfactory	29	Year	Ratings
Number of Projects Flagged Red	11	2010	3.13
Average size of projects (UA million)	21.87	2012	2.76
Average project age (years)	5.2	2013	3.15
No. active operations (#)	21	2014	3.36
Average disbursement rate (%)	45.0	2015	3.30
No. of ageing projects (#)	4	2017	2.72
Slow disbursing projects (#)	1		
Projects at Risk (#)	3		
Commitments at Risk (UA million)	53,4		
Commitments at Risk (in %)	11,9		
Average time from approval to effectiveness (years)	1		
Projects experiencing signature, effectiveness and first disbursement delays (#)	*2*		

Source: Flashlight Report October 2017 : SAP/IPPR for Ratings

Main challenges and Lessons Learned

The main causes for ageing and for projects to become potentially problematic or problematic project include: i) slow disbursement; ii) delay in fulfilling conditions for first disbursement; iii) delay in start-up; iv) problems in procurement vi) delay in closing projects and cancelling the remaining balances on time . The unavailability of counterpart funding has also been one of the causes for the delay in the timely completion of procurement processes. The revision of goods and services and restructuring of projects during midterm reviews could be used among other options to adjust project activities and resolve the problem of ageing in the portfolio. The deterioration of the security status between 2013 and 2015, in some project's areas, also contributed to slower execution including staffing shortages in COMZ with the CPO position vacant for over three years and some key positions.

Given the high percentage of portfolio in transport and energy sectors, some common issues include:

Slow Procurement activities- (i) the initial lengthy procurement process due to the lack of capacity from the executing agencies to deal with complex projects and (ii) the GoM's requirement to ensure due process is followed in contract administration for all public funded projects, normally carried out through prior review of the contracts above on million USD by the Administrative Tribunal, before the respective Procuring Entities (PE) are allowed to sign. This requirement increases substantially the time of processing and also the costs as all biding documents need to be translated to Portuguese.

Low Disbursement - poor contract management and submitted documents in support of applications are inconsistent with contracts' terms and generally incomplete. The delays in invoices processing have negatively affected the project implementation progress as they put a significant stress on the contractors' cash flows.

Environmental and Social Safeguards –Mozambique is considered among the most vulnerable countries to climate shocks in Africa. Recurrent natural disasters in the form of longer cyclones and frequent floods are impacting negatively on construction's deadlines. Financial constrains to comply with the resettlement processes in line with the Bank's rules (RAP). Frequently, the time that is taken since the initial assessment and the actual payment, the number of affected people normally increases in particular in areas surrounding the villages, being an additional financial effort.

In view of the recurrent overestimation of the Government's capacity to mobilize the counterpart cash contribution for projects with substantial magnitude, the cost and time implication of late payments on project's completion, key lessons learned are: (i) future projects should consider reducing the GoM cash contribution or consider only in-kind contribution (ii) GoM contribution should not be used for civil works related activities and (iii) the costs of compensation should be incorporated into the loan amount.

The main challenge faced by the Government in respect to the Executing Agencies (EAs) is largely due to the limited labour pool with adequate work experience and required knowledge of Bank's policies. This has created a challenge in recruitment and retention of staff especially at decentralised levels. The other key challenges are: (i) limited proficiency in English causing delays and slow procurement and (ii) lengthy prior reviews processes at the National Central Bank and at the Administrative Tribunal. The Bank has responded to the challenges by:

Delays in effectiveness**:** In all new operation conditions for entry into force and first disbursement were simplified including the use of advanced procurement. Recognition and addressing of institutional weaknesses in the implementing agencies at an early stage to avoid weak performance; and streamlining project design by selecting the best procurement mode based on the country specificities and reducing the number of procurement transactions and financing preparation of studies through Projects Preparation Funds.

Improvements at COMZ: The Bank is providing training to project staff including contracting specific technical assistance (contract management) to enhance the capacity of PIUs to address some of the issues at their level and given the poor quality of the submitted processes. Therefore, fiduciary clinics were held in 2012, 2014 and 2017 on procurement, financial management, and disbursement to improve the capacity of the PMUs. The Bank has recruited a Portuguese-speaking procurement expert to support operations in Mozambique and other Portuguese speaking countries. The office is also ensuring that all procurement documents and disbursements documents are informally reviewed before they are submitted formally. In addition, given the level of fiduciary risk and the negative trajectory of change as confirmed by the 2015 Public Expenditure and Financial Analysis, the Bank will adopt a gradual approach on use of country systems, recognizing achievements and challenges in Mozambique.

National counterpart resources and VAT repayment: Discussions are ongoing with the government to seek ways to address the counterpart funding and VAT repayment issues. The GoM has request the Bank Group to finance 100% of the projects' costs, including VAT and duties, for projects approved in 2018 and 2019, the Bank will consider a case-by-case authorization for its funds to cover duties and taxes in all new operations. The Bank has also requested the Administrative Tribunal for a waiver to conduct further review of contracts procured using Bank's procurement policy and guidelines. Moreover, a new framework with quarterly reviews of the portfolio's quality has been agreed with government.

Conclusion and Recommendations

The overall project implementation has been satisfactory with a positive future outlook. Five projects were closed since 2015 with four PCR's submitted and one being prepared. The Bank has been successful in leveraging its relatively small ADF allocation with other internal financing instruments, as well as external financing through co-financing and trust funds.

It is noted, however, that the portfolio has showing a declining trend since 2010 being the current rating the lowest of the last five years. Main challenges includes significant delays in fulfilling conditions precedent to first disbursement, slow procurement and disbursement. A priori collaborative effort should be directed towards resolving the ageing and problematic projects in the portfolio but corrective action should be taken on all four fronts: recruitment of COMZ staff; the design of new projects covering VAT expenditures and counterpart financing being only in kind, in line with the Bank policy on eligible expenditures; a waiver from *Administrative Tribunal'*s clearance within the policy dialogue with Government and the judiciary.

In addition, policy dialogue with Government should ensure that a mutual framework of accountability for portfolio management is in place. This includes:

- Quarterly policy dialogue and portfolio follow up meetings with line ministries and Executing Agencies.
- Specific training for Project management Teams/ Executing Agencies including Ministry of Economy and Finance , Bank of Mozambique and Administrative Tribunal staff on Procurements , Finance on Bank's rules and regulations;
- In all new projects, encourage use of advance procurement method at appraisal in order to have lead time and avoid delay in procurement process;
- Internally, progress being monitor through country portfolio meetings to review and monitor implementation of the country portfolio action plan (including a Dashboard with project by project analysis and remedial actions).

The 2017 CPIP lays out a clear set of recommendations aimed at improving the performance of the portfolio.

TABLE A - Performance status of National Ongoing operations under Mozambique Portfolio as of November 2017

N	Long name	Status of Project	Approval date	Planned project completion date	Disb. Rate (%)	Amount App. (UA)	Financing Window	Age	PFI STATUS 2017	IP (Impl.Prog.)	DO (Dev.Obj)	Overall Rating
	Agriculture											
1	COFAMOSA IRRIGATION PROJECT - PPF	OnGo	24-11-15	30-06-18	22.18	0.8	[ADF]	2.0	No IPR			
2	EMERGENCY HUMANITARIAN RELIEF ASSISTANCY DROUGHT DISASTER	OnGo	17-06-16	31-12-16	100.0	0.7	[ADB]	1.4	No IPR			
3	MASSINGIR DAM EMERGENCY REHABILITATION PROJECT	OnGo	15-07-09	31-12-18	94.65	13.3	[ADF]	8.3	NPPP	2.7	2.5	2.6
4	MASSINGIR DAM EMERGENCY REHABILITATION PROJECT SUPPLEMENTARY	OnGo	22-05-13	30-06-18	69.19	22.0	[ADF]	4.5	NPPP			
			26-09-12	30-06-19	78.70	16.5	[ADF]	5.1		3.53	3.00	3.3
5	BAIXO LIMPOPO IRRIGATION & CLIMATE RESILIENCE PROJECT	OnGo	26-09-12	30-06-19	52.40	9.3	[OTHERS]	5.1	NPPP	3.53	3.00	3.3
			26-09-12	30-06-19	7.24	2.0	[OTHERS]	5.1		3.53	3.00	3.3
	Total Agriculture				72.33	64.62		4.5				
	Environment											
6	SUSTAINABLE LAND & WATER RES. MGT PROJECT (SLWRMP) PPCR	OnGo	31-10-12	31-12-18	77.15	2.1	[ADF]	5.0	No [29]IPR			
			31-10-12	31-12-18	54.21	11.2	[OTHERS]	5.0	No IPR			
	Total Environment				57.83	13.35		5.0				
	Finance											
7	AFRICA SME PROGRAM LOC - MOZABANCO S.A MOZAMBIQUE	OnGo	11-04-14	27-03-20	100.0	6.4	[ADF]	3.6	PP	1.67	0.75	1.21
	Total Finance				100.0	6.43		3.6				
	Industry/Mining/Quart											
8	MOMA MINERAL SANDS PROJECT	OnGo	21-05-03	31-12-08	100.0	28.6	[ADF]	14.5	NON PP/PPP	2.00	1.75	1.90
	Total Ind/Mini/Quar				100.0	28.57		14.5				
	Multi Sector											
9	NACALA CORRIDOR BUSINESS LINKAGES PROGRAM	APVD	14-06-17	09-01-20	0.0	0.7	[ADF]	0.4	[30]			
	Total Multi Sector				0.0	0.71		0.4				
	Power											
	ELECTRICITY IV PROJECT	OnGo	13-09-06	31-12-16	92.48	26.3	[ADF]	11.2	NON PP / PPP	2.71	2.75	2.73
10			07-09-06	31-12-16	82.02	7.4	[ADF]	11.2	PPP	2.71	2.75	2.73
	Total Power				90.18	33.73		11.2				
	Social											
11	CONSOLIDATION WOMEN'S ENTREPRENEURSHIP	OnGo	18-12-13	31-12-18	58.62	1.2	[ADF]	3.9	NPPP	3.00	3.00	3.00

[29] Projects supervised with no IPPR
[30] Projects still to meet the conditions

			18-12-13	31-12-18	33.09	2.6	[ADF]	3.9		3.00	3.00	3.00
12	JOB CREATION AND LIVELIHOOD IMPROVEMENT PROJECT	OnGo	18-05-16	30-12-21	8.01	4.5	[ADF]	1.5	NPPP	3.00	3.00	3.00
	Total Social				23.25	8.33		3.1				
	Transport											
13	MUEDA - NEGOMANO ROAD PROJECT PHASE I	APVD	09-12-16	31-12-22	0.0	51.3	[ADF]	0.9				
			09-12-16	31-12-22	0.0	2.2	[ADF]	0.9				
14	MONTEPUEZ-LICHINGA ROAD PROJECT	OnGo	27-10-06	30-06-18	66.58	30.1	[ADF]	11.0	NON PP / PPP	2.07	2.75	2.41
			19-03-07	30-06-18	100.0	20.6	OTHERS]	10.7	NON PP / PPP	2.07	2.75	2.41
15	SUPPLEMENTARY LOAN TO MONTEPUEZ - LICHINGA ROAD PROJECT	OnGo	26-10-10	30-06-18	67.09	32.7	[ADF]	7.0	NON PP / PPP	2.50	2.75	2.62
16	NACALA TRANSPORT CORRIDOR PHASE-III	OnGo	05-12-12	31-12-18	13.56	38.7	[ADF]	4.9				
			05-12-12	31-12-18	18.78	0.2	[ADF]	4.9				
	Total Transport				38.62	175.70		5.8				
	Water and Sanitation											
17	NATIONAL RURAL WATER SUPPLY PROGRAM	OnGo	09-11-10	30-09-17	95.64	5.27	[ADF]	7.0	NonPP /Non PPP			
			09-11-10	30-09-17	95.75	4.97	[ADF]	7.0	NonPP /Non PPP			
18	FEASIBILITY STUDIES FOR BUILDING CLIMATE RESILIENCE OF LIMPO	OnGo	01-12-14	30-12-18	26.23	2.8	OTHERS]	2.9	NonPP /Non PPP	3.00	3.00	3.00
			03-10-14	30-12-18	10.54	0.7	OTHERS]	3.1	NonPP /Non PPP	3.00	3.00	3.00
19	MAPUTO FLOOD RISK MANAGEMENT	APVD	14-07-16	31-12-18	0.0	1.3	OTHERS]	1.3				
	Total Water Sup/Sanit				70.42	15.06		4.3		2.75	2.67	2.72
Total National projects					57.78	346.50		6.1				

1	ENABLING LARGE SCALE GAS & PWR INVESTMNT	OnGo	18-12-13	30-06-18	1.02	9.95	[ADF]	3.9	No IPR			
2	MULTI-NACALA CORRIDOR PROJECT (MOZAMBIQUE)	OnGo	24-06-09	01-07-18	44.38	102.72	[ADF]	8.4	NON PP /PPP	2.36	2.76	2.56
							[ADF]					
	Total Regional Projects under Mozambique Portfolio				22.7	112.67		6.2		2.56		

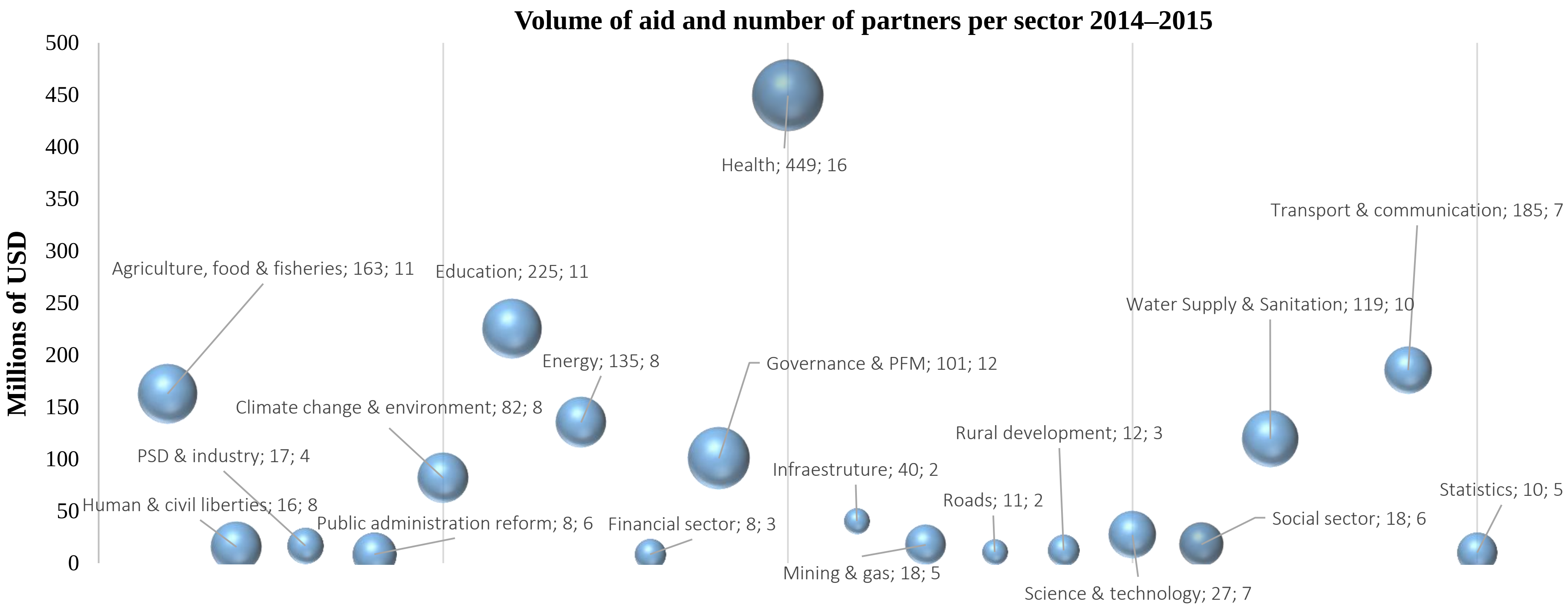
TABLE B - Performance Status of Multinational Ongoing operations with Mozambique involvement as at November 2017

N	Long name	Status of Project	Approval date	Planned project completion date	Disb. Rate (%)	Amount App. (UA)	Age	PFI STATUS 2017	IP (Impl.Prog.)	DO (Dev.Obj)	Overall Rating
1	NACALA RAIL AND PORT PROJECT - CLN	APVD	16-12-15	15-01-28	0.00	79.34	1.9	No IPR			
2	NACALA RAIL AND PORT PROJECT - CEAR	APVD	16-12-15	10-04-20	0.00	12.92	1.9	No IPR			
3	NACALA RAIL AND PORT PROJECT - CDN	APVD	16-12-15	10-11-21	0.00	59.57	1.9	No IPR			
4	NACALA ROAD CORRIDOR STUDIES - FEASIBILITY STUDYFOR THE MALA	OnGo	24-06-09	01-07-18	44.38	102.72	8.4	No IPR			
			10-03-10	06-07-16	100.0	37.61	7.7	No IPR/No Supervision			
	Total Regional Projects under Mozambique Portfolio				**23.19**	**255.87**	**5.4**				

TABLE C – Non-Lending operations - Knowledge Products

N	Long name	Status of Project	Approval date	Planned project completion date	Currency	Amount App.	Amount Dis.	Disb. Rate	Division
1	Geological and Mineral Study of Mozambique	On-going			EUR	0.08	24000.00	30.0%	Mining
2	Unlocking Private Sector Potential – a Blended Finance Approach (UPSP-BF)	Concept			EUR	0.08	0.0	0.00%	Private Sector

Annex VIII – Development Partners in Mozambique



The suspension of GBS in 2016 disrupted data collection and there is no comprehensive updated data based of overall ODA flows. Nonetheless, most donors have kept its main strategic focus, while refocusing great part of funds previously channelled through GBS into project modalities.

Until 2015 fourteen partners provided budget support with programme-based assistance mostly focused on PFM reforms and education. As for projects and common funds, from disbursements made in 2014 and 2015, the main sectors supported were health (USD 450 million, and 11 partners); education (USD 225 million, eight partners); and transport and communications (USD 185 million, four partners). The sectors with more partners were science and technology (16 partners), infrastructure (12 partners), and both health, and water and sanitation (11 partners both). The governance and PFM sector benefitted from the budget support operation, in addition to USD 100 million provided by eight partners directly on a project basis. Agriculture and energy were the four and fifth sector in terms of volume, with USD 162 million (11 partners) and USD 135 million (seven partners) respectively. The presence of non-traditional partners in the country is strong and expanding. China and Brazil have provided extensive credit lines, concessional and non-concessional, mostly directed at infrastructure on project financing modalities. Other growing partners are Vietnam, India and Korea. The health sector is highly financed by global initiatives such as the Global Fund and the Global Alliance for Vaccines and Immunization.

Development Partners Sector Groups of Policy Discussion and Aid Coordination

Sector Working Groups	Chair of Group	Partners Participating
Agriculture	World Bank	EU, Belgium, Austria, Finland, USAID, WB, IFC
Private Sector (incl, trade sub-group)	Norway	Netherlands, Germany, UK, Ireland, Finland, Norway, Denmark, Sweden, Austria, France, Italy, Portugal, EU, Switzerland, USAID, Canada, Japan WB, IFC, AFDB, ILO, UNIDO
Energy (incl. renewable, and off-grid sub-group)	World Bank & Sweden	Belgium, France, Sweden, Finland, Norway, Germany, EU, Japan, USAID, WB, IFC, AFDB, UNIDO
Education (incl. sub-groups on primary, secondary, TVET)	Germany	UK, Finland, Norway, Sweden, Germany, Netherlands, Italy, Ireland, Portugal, Canada, Japan, Korea, USAID, WB, UNICEF, GPE, ILO, UNESCO, UNFPA
Health (incl. several sub-groups)	USAID	Canada, USAID, EU, UK, Netherlands, Denmark, Germany, Belgium, Ireland, France, Spain, Italy, Switzerland, WB, Global Fund, WHO, UNFPA, UNICEF, GFF
Social Protection	UNICEF	EU, UK, Sweden, Netherlands, Ireland, Italy, USAID, WB, UNICEF, ILO, WFP, ICDP
Water and Sanitation including Water Resources	UNICEF	Netherlands, Belgium, Germany, Austria, UK, Sweden, France, Portugal, Spain, EU, Switzerland, Japan, Canada, India, Korea, WB, AFDB, UNICEF
Macro Stability & PFM (incl. several sub-groups)	Sweden & IMF	EU, UK, Sweden, Norway, Finland, Denmark, Netherlands, Germany, Belgium, Ireland, Austria, France, Spain, Italy, Portugal, Switzerland, Canada, USAID, Japan, Korea, WB, IMF, AFDB, UNDP, UNICEF, UNFPA
Extractives (incl. EITI)	Norway	UK, Norway, Finland, Denmark, Germany, France, EU, Switzerland, Canada, Australia, USAID, WB, IFC, IMF, AFDB, UNDP
Governance (incl. several sub-groups)	UK	UK, Finland, Sweden, Denmark, Germany, Italy, EU, WB, UNDP
Conservation	Germany	EU, France, Germany, Denmark, USAID, WB, WCS, WWF
Climate Change & Environment	UNDP	UK, Ireland, Germany, Netherlands, Norway, Finland, Sweden, Denmark, France, EU, USAID, Japan, WB, AFDB, UNDP, UN-HABITAT, IFAD, WWF
Urbanization & Decentralization	Switzerland	Canada, USAID, UK, Netherlands, Norway, Denmark, Sweden, Germany, Ireland, Austria, Portugal, Spain, Italy, EU, Switzerland, WB, IMF, AFDB, UNDP, UN-HABITAT, UNICEF, UCLG

Annex IX – Country Financing Parameters

The country financing parameters for Mozambique set out below have been approved by the World Bank's Regional Vice President, Africa Region, on August 25, 2004 and are being posted on the Bank's internal website.

ITEM	PARAMETER	REMARKS
Cost sharing. Limit on the proportion of individual project costs that the Bank may finance	100%	
Recurrent cost financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance	No country-level limit	The Bank will not finance recurrent costs in the case of urban, water, electricity, roads and similar projects for which user fees may be charged, other than in exceptional circumstances.
Local cost financing. Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects	Yes	
Taxes and duties. Are there any taxes and duties that the Bank would not finance?	None	

Annex X – Country Strategic and Planning Systems

The long-term vision of Mozambique was set at the dawn of the new Millennium. The country's long-term development vision - the Agenda 2025 – was approved in 2003 and designed to help the country achieve the MDGs. It envisioned that Mozambique is transformed into an Enterprising and Continuously Successful Country, and placed the tone for Mozambicans to take their destiny in their own hands, make use of the endogenous development factors, and create conditions for each one to contribute for adding value to national wealth.

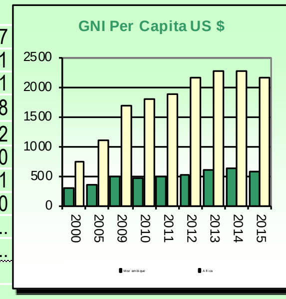
A new long term development strategy - the ENDE – has been approved in 2014. The new ENDE's main objective is the improvement of the livelihoods of the population through the structural transformation of the economy, and the expansion and diversification of national production. The ENDE builds on the potential transformational effect provided by the natural resources exploration, pointing to industrialization as the main way to achieve prosperity, competitiveness and inclusive growth. The areas of focus under the ENDE are fully consistent with the High5s and the Bank Group's Ten Year Strategy operational priorities, namely infrastructure development, private sector development, governance and accountability, regional integration, and skills and technology. ENDE's pillars are: i) human capital development, ii) infrastructure development, iii) innovation and technological development, and iv) institutional organization, coordination and articulation. Its priority areas are: agriculture and fisheries, the manufacturing and extractive industries, and the tourism industry. The two main instruments to operationalize the strategy are: 1) incentives for the development of the private sector, with emphasis on the mobilization of resources for private investment and the development of small and medium enterprises, and 2) public investment financing mechanisms

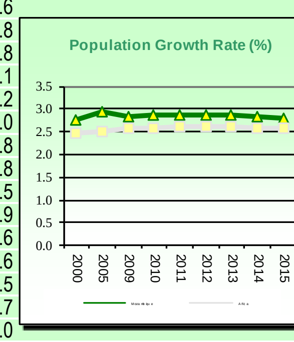
Mozambique's poverty reduction efforts are to be streamlined into the Five-Year Government Programs (PQGs). The National Planning System's main operational instruments are the PQG, the Medium-Term Fiscal Framework and the Medium-Term Expenditure Framework (currently, following the hidden-debts case, there is neither an updated MTEF or MTFF). The yearly implementation of the PQG is carried through the Economic and Social Plan (PES), consisting of a yearly planning tool that represents the main social objectives and goals to be achieved during the next economic year. This plan is financially translated in the yearly State Budget. The newly approved PQG for the 2015-2019 period has as its central focus increasing employment, productivity and competitiveness to improve living conditions of Mozambicans in rural and urban areas, in an environment of peace, harmony and tranquillity, while consolidating democracy and inclusive participatory governance. The government's plan is directed to five priorities: i) consolidation of national unity, peace and sovereignty; ii) Development of human and social capital; iii) promotion of employment, productivity and competitiveness; iv) Development of economic and social infrastructure, and v) sustainable and transparent management of natural resources and the environment. These priorities are to be supported in support by 3 main pillars, namely (a) to consolidate the rule of law, good governance and decentralization; (b) to provide a macroeconomic environment balanced and sustainable; (c) strengthening international cooperation.

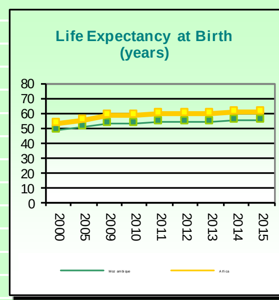
In 2012 at the RIO+20 conference, the President of the Republic launched Mozambique's Green Economy Roadmap. The launching was the first by an African country, counting with the personal endorsement of AfDBs' President Kaberuka. The roadmap acknowledged the importance of transitioning to a new inclusive and green development model. The roadmap and the subsequent Green Economy Action Plan, also directly supported by the Bank, stablished Mozambique's green growth pillars centred on (i) efficient and sustainable use of natural resources (water, land for agriculture, forests, fisheries, tourism, minerals and other natural resources), (ii) the strengthening of resilience and adaptive capacity to socio-economic shocks and climate variability, and (iii) the development of sustainable infrastructure (transport, energy, urban).

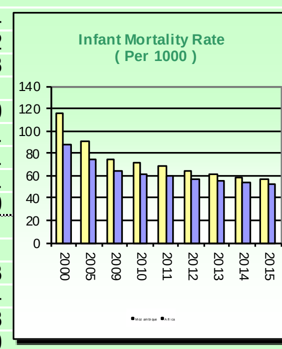
Annex XI – Comparative Social-Economic Indicators

	Year	Mozambique	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2016	799	30,067	97,418	36,907
Total Population (millions)	2016	28.8	1,214.4	6,159.6	1,187.1
Urban Population (% of Total)	2016	31.4	40.1	48.7	81.1
Population Density (per Km²)	2016	36.6	41.3	65.1	33.8
GNI per Capita (US $)	2015	580	2 153	4 509	41 932
Labor Force Participation *- Total (%)	2016	79.1	65.7	63.5	60.0
Labor Force Participation **- Female (%)	2016	82.3	55.7	48.9	52.1
Sex Ratio (per 100 female)	2016	95.7	100.1	106.0	105.0
Human Develop. Index (Rank among 187 countries)	2015	181	...	...	...
Popul. Living Below $ 1.90 a Day (% of Population)	2008	68.7	...	21.1	...
Demographic Indicators					
Population Growth Rate - Total (%)	2016	2.8	2.5	1.3	0.6
Population Growth Rate - Urban (%)	2016	3.4	3.6	2.4	0.8
Population < 15 years (%)	2016	45.1	40.9	27.9	16.8
Population 15-24 years (%)	2016	20.1	19.3	16.9	12.1
Population >= 65 years (%)	2016	3.4	3.5	6.6	17.2
Dependency Ratio (%)	2016	94.2	79.9	54.3	52.0
Female Population 15-49 years (% of total population)	2016	23.1	24.0	25.7	22.8
Life Expectancy at Birth - Total (years)	2016	55.8	61.5	69.9	80.8
Life Expectancy at Birth - Female (years)	2016	57.0	63.0	72.0	83.5
Crude Birth Rate (per 1,000)	2016	38.4	34.4	20.7	10.9
Crude Death Rate (per 1,000)	2016	11.0	9.1	7.6	8.6
Infant Mortality Rate (per 1,000)	2015	56.7	52.2	34.6	4.6
Child Mortality Rate (per 1,000)	2015	78.5	75.5	46.4	5.5
Total Fertility Rate (per woman)	2016	5.2	4.5	2.6	1.7
Maternal Mortality Rate (per 100,000)	2015	489.0	476.0	237.0	10.0
Women Using Contraception (%)	2016	18.7	31.0	62.2	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2005-2015	5.5	41.6	125.7	292.2
Nurses and midwives (per 100,000 people)	2005-2015	40.1	120.9	220.0	859.4
Births attended by Trained Health Personnel (%)	2010-2015	54.3	53.2	69.1	...
Access to Safe Water (% of Population)	2015	51.1	71.6	89.4	99.5
Access to Sanitation (% of Population)	2015	20.5	39.4	61.5	99.4
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2015	10.5	3.4	...	...
Incidence of Tuberculosis (per 100,000)	2015	551.0	240.6	166.0	12.0
Child Immunization Against Tuberculosis (%)	2015	95.0	81.8	...	...
Child Immunization Against Measles (%)	2015	85.0	75.7	83.9	93.9
Underweight Children (% of children under 5 years)	2010-2015	15.6	18.1	15.3	0.9
Prevalence of stunding	2010-2014	43.1	33.3	25.0	2.5
Prevalence of undernourishment (% of pop.)	2015-2016	25.3	16.2	12.7	...
Public Expenditure on Health (as % of GDP)	2014	3.9	2.6	3.0	7.7
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-2016	105.8	101.2	104.9	102.4
Primary School - Female	2010-2016	101.2	98.4	104.4	102.2
Secondary School - Total	2010-2016	32.4	52.6	71.1	106.3
Secondary School - Female	2010-2016	31.1	50.2	70.5	106.1
Primary School Female Teaching Staff (% of Total)	2010-2016	43.1	47.1	59.8	81.0
Adult literacy Rate - Total (%)	2010-2015	58.8	66.8	82.3	...
Adult literacy Rate - Male (%)	2010-2015	73.4	74.3	87.1	...
Adult literacy Rate - Female (%)	2010-2015	45.5	59.4	77.6	...
Percentage of GDP Spent on Education	2010-2015	6.5	5.0	4.0	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2014	7.2	8.7	11.2	10.3
Agricultural Land (as % of land area)	2014	63.5	41.7	37.9	36.4
Forest (As % of Land Area)	2014	48.5	23.2	31.4	28.8
Per Capita CO2 Emissions (metric tons)	2014	0.2	1.1	3.5	11.0









Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; last update : June 2017
UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.
*Note : n.a. : Not Applicable ; … : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

Annex XII – 2017 Country Fiduciary Risk Assessment

Introduction
The Bank updated the Mozambique Country Fiduciary Risk Assessment (August 2017) with the objective to assess the level of fiduciary risk associated with the country's Public Financial Management (PFM) systems in order to determine the level of recommended use of the system in the context of the proposed Country Strategy. The analysis was done through the review of the core elements of the PFM systems (which include budget, treasury, accounting and reporting, internal controls, external audit, corruption and procurement). The overall fiduciary risk is assessed as *substantial,* with a negative trajectory of change despite efforts made as also alluded to in the latest PEFA Report published in 2016.

Overall Public Financial Management Systems Performance and Level of Recommended use:
Noticeable achievements include (i) introduction and rollout of the Single Treasury Account, (ii) continued implementation of e-SISTAFE currently about 85% of Government spending and 80% of districts, (iii) strengthening tax administration, (iv) introduction of the revised procurement regulations, (v) production of Fiscal Risk Declaration and (vi) publication of the Integrated Investment Plan.

While commending the Government for progress achieved so far under the ongoing reforms, there is need to expedite action in implementing the remaining reform activities under the ongoing Public Financial Management Reform Program implemented through the Government's PFM Strategic Plan. The review identified the following areas of weakness concerning fiduciary risk: (i) weak linkages between different planning instruments and annual budget, (ii)weak capacity in PFM institutions at provincial and district levels, (iii) need to improve information included in the budget documentation, (iv) effectiveness in collection of tax arrears, (v)weak accountancy profession in the country, (vi) quality issues with internal and external audit and scrutiny (vii) weakness in public investment management, (viii) weakness in procurement and (ix) the comprehensiveness of the fiscal documents among others. The ongoing Reform Program coordinated by the 10 cooperating partners, will help to correct deficiencies.

Given the level of fiduciary risk and the negative trajectory of change as confirmed by the 2015 Public Expenditure and Financial Analysis (table 1 and 2 below), the Bank will adopt a gradual approach on use of existing systems, recognizing achievements and challenges in Mozambique and at the same time it will seek out opportunities to use individual elements to maximize extent possible, where these are assessed adequate with appropriate mitigation measures incorporated into the design of Public Investment Projects. The Bank's fiduciary capacity building support will explore the possibility of contributing towards the implementation of GoM's ongoing PFM Reform Strategy currently being supported by PFM CPs in Mozambique.

Table 1: Public Expenditure and Financial Analysis trends between 2007 and 2015(Based on PEFA Framework)

INDICATOR		2007	2010	2015
A. PFM OUT-TURNS: Credibility of the budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	**A**	**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	Not Comparable		**D+**
PI-3	Aggregate revenue out-turn compared to original approved budget	Not Comparable		**A**
PI-4	Stock and monitoring of expenditure payment arrears	B+	**B+**	**D+**
B: KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	B	**B**	**B**

PI-6	Comprehensiveness of information included in budget documentation	B	**A**	**C**
PI-7	Extent of unreported government operations	C+	**B**	**B+**
PI-8	Transparency of inter-governmental fiscal relations	C+	**B**	**B**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	**D+**	**C+**
PI-10	Public access to key fiscal information	B	**B**	**B**
C: BUDGET CYCLE **C(i) Policy-Based Budgeting**				
PI-11	Orderliness and participation in the annual budget process	B+	**B+**	**B+**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	**C+**	**C+**
C(ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	B+	**A**	**A**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	**A**	**B**
PI-15	Effectiveness in collection of tax payments	D+	**C+**	**D+**
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	**C+**	**C+**
PI-17	Recording and management of cash balances, debt and guarantees	A	**A**	**A**
PI-18	Effectiveness of payroll controls	B	**B**	**B**
PI-19	Competition, value for money and controls in procurement	Not Comparable		**D+**
PI-20	Effectiveness of internal controls for non-salary expenditure	B	**B+**	**C+**
PI-21	Effectiveness of internal audit	B	**C+**	**B+**
(C) (iii) Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	B	**B**	**B**
PI-23	Availability of information on resources received by service delivery units	D	**D**	**D**
PI-24	Quality and timeliness of in-year budget reports	C+	**C+**	**B**
PI-25	Quality and timeliness of annual financial statements	C+	**C+**	**B+**
C(iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	C+	**C+**	**C+**
PI-27	Legislative scrutiny of the annual budget law	B+	**C+**	**C+**
PI-28	Legislative scrutiny of external audit reports	C+	**C+**	**C+**
D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support	A	**A**	**B+**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	**D+**	**D+**
D-3	Proportion of aid that is managed by use of national procedures	D	**C**	**D+**

Table 2: 2015 Public Financial Management Scores (Based on PEFA framework)

Indicator		Score 2010	Score 2015	Change
PFM OUTTURNS: Credibility of Budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	**A**	**A**	↔
PI-2	Composition of expenditure out-turn compared to original approved budget	**D**	**D+**	↑
PI-3	Aggregate revenue out-turn compared to original approved budget	**A**	**A**	↔
PI-4	Stock and monitoring of expenditure payment arrears	**B+**	**D+**	↓
KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the Budget	**B**	**B**	↔
PI-6	Comprehensiveness of information included in budget documentation	**A**	**C**	↓
PI-7	Extent of unreported government operations	**C+**	**B+**	↑
PI-8	Transparency of inter-governmental fiscal operations	**B**	**B**	↔
PI-9	Oversight of aggregate fiscal risk from public sector entities	**D+**	**C+**	↑
PI-10	Public access to key fiscal information	**B**	**B**	↔
BUDGET CYCLE				
C (i) Policy Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	**B+**	**B+**	↔
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C+**	**C+**	↔
C (ii) Predictability and Control in Budget Execution				
PI-13	Transparency of tax-payers' obligations and liabilities	**A**	**A**	↔
PI-14	Effectiveness of measures for tax-payer registration and tax assessment	**A**	**B**	↓
PI-15	Effectiveness in collection of tax payments	**C+**	**D+**	↓
PI-16	Predictability in the availability of funds for commitment of expenditures	**C+**	**C+**	↔
PI-17	Recording and management of cash balances, debt and guarantees	**A**	**A**	↔
PI-18	Effectiveness of payroll controls	**B**	**B**	↔
PI-19	Competition, value for money and controls in procurement	**B**	**D+**	↓
PI-20	Effectiveness of internal controls for non-salary expenditure	**B**	**C+**	↓
PI-21	Effectiveness of internal audit	**C+**	**B+**	↑
C (iii) Accounting, Recording, and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	**B**	**B**	↔
PI-23	Availability of information on resources received by service delivery units	**D**	**D**	↔
PI-24	Quality and timeliness of in-year budget reports	**C+**	**B**	↑
PI-25	Quality and timeliness of annual financial statements	**C+**	**B+**	↑

C (iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of External Audit	**C+**	**C+**	↔
PI-27	Legislative scrutiny of the annual budget law	**C+**	**C+**	↔
PI-28	Legislative scrutiny of external audit reports	**C+**	**C+**	↔
DONOR PRACTICES				
D-1	Predictability of direct budget support	**A**	**B+**	↓
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	**D+**	**D+**	↔
D-3	Proportion of aid that is managed by use of national procedures	**C**	**D**	↓

Source: PEFA Assessment of Public Finance Management, 2015 – Mozambique

Annex XIII – 2017 Country Fragility Assessment

Mozambique: Assessment of drivers of fragility and sources of resilience

1. Introduction

In recognition of the importance of the pressures and risks shaping the nature and direction of development in Africa, various forums, panels and strategies have sought to place resilience at the core of their approaches to development actions. In its Ten Year Strategy (2013-2022), the African Development Bank has committed itself to building resilient, stable and capable states in Africa. In this context, the Bank's new strategy for building resilience in Africa (2014-2019), recognizes that pressures to resilience do not respect state boundaries. The basic premise of the strategy is that as the pressures to resilience and the capacities and resources of affected states to handle the pressures vary significantly, the Bank's response has to be calibrated to each context.

Under this vision, the mandate of the Transition States Coordination Office (RDTS) is to lead and coordinate the Bank's effort in laying the foundation for social and economic transformation in Bank's Regional Member Countries (RMCs) affected by pressures to resilience. To do so, RDTS has identified the need for high-quality analytical and diagnostic work to deepen the Bank's understanding about the pressures, root-causes and sources of resilience at the national, sub-national and regional levels, and analysis of strategic options for tailoring the Bank's engagement to address them.

It is in this context and particularly now that Mozambique became part of the harmonized list of fragility situations since August, 2017 this analysis was compiled by RDTS to assess the determinants of resilience and sources of change in Mozambique along five dimensions, namely, political, social, economic, justice and security and spatial and environmental to inform the preparation of the Bank's new country strategy paper for Mozambique during the period 2017-2021.

The note focuses on identifying the main drivers of fragility (i.e. the main pressures the country faces) and their root-causes (i.e., their origins) as well as possible sources of resilience and positive change in Mozambique.

The study builds on a desk-review of literature on the history of social, economic and political evolution of Mozambique as well as on consultations with a diverse group of stakeholders operating in the country, ranging from independent researchers, civil society organizations, research organizations and advocacy groups.

The report has 4 sections. Section 2 presents the recent context of the country. Section 3, describes and discusses the main drivers of fragility and sources of change. Section 4, concludes, and presents some recommendations.

B. Country context

The section below briefly describes the recent main features of the political, social, economic and environmental context of Mozambique. Emphasis s has been placed on factors that bear relationship with the current drivers of fragility faced by the country and their root-causes.

The economy. Following the 1992 peace accord, Mozambique has been a good example of post-war economic recovery. The economy has enjoyed high growth rates over the last 20 years (averaging 6% per year); it has been one the favorite destinations for FDI in Africa and a successful example of international development assistance. However, in co-existence with this positive context, there has been the paradox of stagnant poverty rates and widening economic inequality; contraction of the manufacturing sector; expansion of informalization and recently, a deep economic crisis fueled by the revelation of hidden publicly guaranteed debt which led to a suspension of direct financing to government from most development partners, including the International Monetary Fund (IMF).

The main policy response has been one focused on a tight monetary policy and to some extent, fiscal consolidation which has led to a lower budget deficit and to exchange rate stabilization, but also high interest rates. There have been efforts to fine tune trade and industrial policy as well as broadening the tax base.

Politics. From the political point of view Mozambique underwent several changes over time. It moved from colonial domination to independence in 1975 and then to a 16-year civil war. In 1992 with the peace agreement it moved from one party-system to a multi-party democracy. The first general elections were held in 1994 through which the country lived a politically stable period for some time.

Politicization of state institutions, the emergence of an economic elite often associated with the political power; allegations of elections' rigging by members of the opposition party; and the recent armed confrontation between the main opposition party (RENAMO) and the national army are factors cited as potential drivers of grievances and conflict.

A truce has recently been achieved between the government and RENAMO which is creating an environment for a private sector-led economic recovery. A recent initiative from the top leadership of the two main political parties is attempting to consolidate this truce into a stable political settlement

The society. Mozambique's social inclusion indicators are lagging. The country ranks low in the Human Development Index; it has latent ethnic and regional tensions that stretch back to the pre-colonial era and are at times exploited in the political discourse. High economic inequality; prevalent informality and low jobs security add to the factors limiting social inclusion and stability. Moreover, in the second half of 2013, there was a surge in organized crime, with targeted assassinations, kidnappings in exchange for a ransom, rapes and petty crime in urban and peri-urban areas, especially in the city of Maputo. The emergence of these crimes calls for a reinforcement of the capacity and resources of the police force to handle them and for an increased access to justice services, especially in rural areas where community-based systems prevail in the settlement of disputes.

The environment. According to the Global Climate Change Risk Index, Mozambique is one of Africa's most vulnerable countries to climate change. It is exposed to various and often cyclical extreme weather events such as droughts, floods and tropical cyclones which affect the livelihoods of millions of people, disrupt economic activity and isolates some regions from the others because of the destruction of critical infrastructure such as roads and bridges.

With an economy dependent upon agriculture, fishing and rain-fed farming recurrent natural disaster contribute to food insecurity and displacement of communities. Natural disasters and climate change are a recurrent risk and source of vulnerability for which sources of resilience need to be identified.

C. Drivers of fragility and sources of resilience in Mozambique

This section identifies and describes the drivers of fragility, their root-causes and potential sources of resilience for Mozambique along the political, social, economic, justice and security and spatial and environmental dimensions. It is important to bear in mind that even though the drivers are grouped into those categories, they are intertwined in their causes and effects in most cases and their interactions, make up the overall pressures to resilience that the country faces.

The analysis has found that the main drivers of fragility confronting Mozambique include:

- Economic drivers: economic and social infrastructure shortcomings; a relatively high but none-inclusive economic growth and the consequences of the debt sustainability crisis;
- Justice and security drivers: a limited social dialogue and the risk of armed violence/conflict in remotest part of the province Cabo-Delgado.
- Social drivers: high population growth, slow urbanization and low population density; economic inequality along education spatial and gender lines and high unemployment and dependence ratio.
- Political drivers: porosity in public finance management; political patronage, corruption and politicized state institutions.
- Spatial and environmental: Exposure to extreme weather events; risk of rising sea-water level and high biomass consumption.

The subsequent sections, detail for each of the five dimensions, the essence of the drivers of fragility, their root-causes and sources of resilience.

A. Economic drivers

This section describes the main economic pressures faced by Mozambique which include, economic and social infrastructure shortcomings; a relatively high but none-inclusive economic growth and the spin-off effects of the "hidden" debt.

Economic and social Infrastructure gaps. The current stock , distribution and status of the economic and social infrastructure in Mozambique is a function of the legacy of the colonial period, effects of the civil war and economic governance shortcomings in recent years. As a legacy of the colonial period, infrastructure such as roads and railways, were oriented to serve international trade interests of hinterland countries and could be found mostly in the south to connect with South Africa and the center to connect with hinterland commodity-producing countries. After independence and during the civil war, the same infrastructure served as a source of fiscal revenues for Mozambique and today this infrastructure (expanded or improved in some cases) mostly serves regional integration purposes and interests of mega-projects. However, domestic trade, territorial integration and social inclusion remain poorly served as production and supply hubs are still disjoined from or remain inefficiently and costly connected to consumption hubs Challenges in economic governance in infrastructure projects and especially in efficient selection prioritization and execution of projects have led to leakages of financial resources.

Sources of change and resilience include the common interest of SADC countries in developing trade gateways in Mozambique through the various initiatives by agents such as MDB with interests (commercial or not) in fostering infrastructure developments in the SADC region such as the AfDB (with its integrate Africa focus area); the government's focus on strengthening national geographical unity and the African Union, with its focus on infrastructure; commercial banks and infrastructure-focused PPP initiatives.

68. **High, but not inclusive economic growth**. Non-inclusive growth (i.e. relatively high growth rates alongside high poverty and income inequality) in Mozambique is both a function of the structure of the economy and shortcomings of economic strategies and policies. For decades, the structure of the economy has remained virtually unchanged. The growth dynamics after the peace accord in 1992 did not do much to

revert that pattern. The large FDI inflows that followed led to the creation of dual economy – one vibrant of mega-projects and one disconnected from mega-projects, where jobs are largely low skilled and with low-productivity. As a result agriculture (mostly small scale) remains an important source of subsistence (but not of income) for 70% of the rural 80% rural population in the country. The services sector on the other hand has grown in importance and demands high skills which most of the labor does not possess and that has contributed to informality in some of its segments.

The policy response to the observed growth pattern tended to reinforce the aforementioned duality of the economy by shaping the business environment to serve large extractive projects by providing large tax exemptions and holidays. Later policies and strategies to amend the situation in the context of the resources boom, included, promotion of local content targets and initiatives; setting-up of vocational training programs and support mechanisms for SME's to enter into the hydro-carbon value chains; improvement of the tax regime for the extractives sector in order to improve revenues collection and linkages between the mineral resources-based sectors and non-resources-based or intensive ones.

Entry-points to addressing this driver of fragility include policy measures and strategies such as, (i) further fine-tuning of the fiscal and business regulatory frameworks; (ii) continued elimination of bottlenecks to doing business in Mozambique and (ii) fostering linkages between mega-projects and the rest of the economy, particularly in labor intensive sectors to improve their productivity. Agents of change in this domain include the Multilateral Development Banks (MDB); sections of the private sector and other stakeholders interested in industrialization and inclusive growth.

Debt (un)sustainability and the "hidden debt" crisis. In early 2016 the government acknowledged the existence of previously undisclosed loans (in excess of two billion US dollars) contracted with the State's guarantee between 2013 and 2014, Mozambique's total public debt increased to about 120% of the GDP. Over that, Mozambique has been experiencing fiscal challenges, especially after direct budget support got suspended and the rapid depreciation of the local currency increased production costs and led to a depressed aggregate demand, closing down of firms and lay-offs in some cases.

The "hidden debt crisis' let to distrust between the government and the international donor community. Rebuilding the trust will be critical to the restoration of productive dialogue.

Donors rely on the IMF's assessment of a sustainable macro-fiscal framework to guide their financing decisions. However, as the IMF found itself "fronting" the dialogue between the government of Mozambique (GoM) and the international community, there is a risk that the macro-fiscal reform agenda necessary to stabilize and kick—start the economy focusing on short-run policy measures could be compounded with wider issues pertaining to a medium-term political dialogue. As the partner-Government dialogue framework based on budget support has been made obsolete by withdrawal from this aid modality, there is a risk of heightening mistrust between the GoM and the international community.

Overcoming this stand-off will require, inter alia, (i) clarifying the grey areas identified by the audit report to the "hidden" debts as a way to restore confidence in the state's transparency and accountability in public finance management; (ii) identification of pathways to consolidate the public finances and re-structure or reduce the public debt and (iii) reduction of country risk perception and improvement of credit ratings to provide GoM with the necessary room to plan medium-term reforms.

At present, the policy response in the form of hiked reference interest rates by the central bank has contributed to currency stabilization and contraction of the budget deficit, respectively.

B. Social drivers

This sections describes the main social drivers of fragility faced by Mozambique which include, high population growth, slow urbanization and low population density; economic inequality along education spatial and gender lines and political party affiliation and high unemployment and dependence ratio

High population growth, low urbanization and population density. Arguably, while population growth can be a source of economic growth and development, in Mozambique, that seems to be a challenge, given that such growth is not matched by growth in labor intensive sectors (e.g. agriculture); improvement in the quality of education and skills expansion and gross capital formation. Moreover, the low population density (34 people per square kilometer), leads to additional public services delivery challenges (compounded by low penetration of economic and social infrastructure (e.g. telecommunications, electricity and roads), which is further compounded by the nomadic nature of social structures in the center and north of the country. Therefore, the interaction of the above trends strain (and are strained by) poor public services delivery throughout the country.

Entry points to addressing this driver include the design of an integrated approach between urban planning and industrialization and trade strategies, that would for example, entail that urban plans revolve around or should contain clusters/hubs of public services delivery (e.g. education, health and housing) linked to output markets or labor-intensive segments of value-chains.

Economic Inequality (along education, geographical and gender lines). Economic inequality is a function of the nexus education level, gender and geographical location in the country. The highly educated (i.e. with tertiary education level), on average command a high premium in the labor market and so do those holding positions requiring political trust or connections (to the ruling party). While access to education may depend upon various factors (e.g. location, drop-out rates, income level), women to a large extent tend to be disadvantaged compared to men.

The implication of this exclusionary practices/patterns, coupled with a low-skills and capital-intensive driven economic growth and sub-optimal provision of public goods and constrained business environment) leads to a high income/economic inequality with a tendency to become rigid.

High unemployment and dependence ratios. Due to the combined effect of the limited ability of the economy to create labor jobs and high population growth. Although unemployment data in Mozambique is not regularly published, available figures show/suggest that unemployment has been on the rise, especially among the younger population.

According to the 2012 household survey, unemployment stood at 22.5% in 2012, while in 2007 it was 17%. With a population growth of 2% per year and about 350.000 new and young entrants into the labor market, failing to meet rising expectations about economic opportunities and jobs could raise of the danger of clashes and social instability.

Entry points to address these drivers, include (i) a comprehensive enforcement of the probity law and public finance regulations, (ii) expansion and de-politicization of social dialogue and (iii) substantial overhaul of the particularly primary education system. Agents of change include mostly the ruling party, the parliament and opposition parties, civil society organization.

C. Political drivers

This section describes the main political drivers of fragility which include, political patronage, nepotism and politicized state institutions and porosity in public finance management.

Political patronage and politicized state institutions. With politicized state institutions (i.e. political affiliation a political formation acts as an enabler of jobs access and progression) and with an economy that progressively and biasedly displays huge economic opportunities in the mineral and energy sector, competition to access and control resources (through personal businesses or through proximity to fiscal revenues or well-paying job) has become the driver of social and political rifts (within the ruling party and between the former and the opposition); of rent-seeking and subjection of state institutions and policies and norms to personalized networks of the political elites. The recent political efforts to seek a more inclusive settlement between the government and the opposition and the demonstrated support by segments of the international community, represent an important source to restore and consolidate long-term stability.

Overriding of public finance management systems. Over the past years Mozambique has made progress in improving its public finance management framework as attested by the subsequent PEFA assessments. Many laws, regulations and systems are in place, but, political economy-driven-pressures on civil servants, limited publication of policy and financial information, limited capacity of the external audit still represent significant sources of porosity in public finance management. The "hidden debt" crisis in particular has highlighted the vulnerabilities of PFM systems to politically-driven override.

Sources of change, include, beefing-up the geographic and institutional coverage of the external audit office; deeper enforcement of the probity law; strengthening oversight capacity of members of parliament in budgeting issues and Investment in labor intensive sectors that display lower opportunities for rent-seeking such as agriculture. The main agents of change would include, the parliament, the external audit office; development partners with interest in economic governance improvements; civil society and research organizations with interest in public finance management.

D. Justice and security drivers

This sections presents the main social pressures affecting Mozambique which include, a limited social dialogue and the risk of a prolonged armed violence/conflict in Cabo-Delgado.

Risk of an armed violence/conflict in Cabo-Delgado. The occurrence of sporadic armed attacks/confrontation between the police and terrorist groups in the region of Mocímboa da Praia in the province of Cabo-Delgado, threatens to increase the regions investment risk profile This dynamic is further heightened by the forthcoming investment in gas the region, that, if not carefully managed, could unleash grievances and exacerbate conflict. This risk further aggravates the still fresh security concerns created by the recently ended armed conflict in the center of Mozambique between RENAMO and the government which disrupted economic activity, displaced people and raised the country-risk. This is though, an emerging driver of fragility given that the risk is recent and so far, there is not much accurate information to predict the duration, intensity or direction that the attacks and confrontation may take.

Limited/weak social dialogue. In Mozambique, the level of engagement and mutual accountability among state-society; donors-state and government-opposition is low. Engagement and accountability exists between the government and the donor community, and within the government and the ruling party (FRELIMO), but it is limited between the state and the rest of the society. Today, in the context of multi-party democracy, the incentive resides in the need to get support (technical and/or financial) from the donor community. Civil society in turn, is relegated to a secondary role, over the perceived notion of skewed origin and agenda against the government. Moreover, limitations in this engagement are a function of civil society's weak technical capacity to analyze policies and engage with the government. The implication of this, is that social dialogue in Mozambique follows a party/donor/state nexus and very often overrides civil society and the general public consultations at large.

The prominent role assumed by the international community following the "hidden debt" crisis in assessing government policy measures can help foster national dialogue on the use of public resources but, if not carefully managed in a way that is mindful of the role of domestic actors and society, could also damage the line of accountability between the GoM and citizens by reinforcing an alternative, less sustainable GoM-donors dynamic.

The current search for solutions to the current debt crisis, represents an opportunities to reset the direction of social dialogue in the country, given that both the government and civil society as well as political parties have an interest in finding a solution.

The recent efforts by the presidents of the country and that of RENAMO in seeking a negotiated settlement to the current political antagonism also represents an opportunity to beef-up social dialogue.

Carrying out broad-based consultations or dialogue on how to use the tax revenues that will accrue from the exploration of gas, also represents an opportunity to expand social dialogue.

Risk that the north of Mozambique becomes an economic enclave. With the beginning of production of gas in Cabo-Delgado, there is a risk that, (i) no linkages between the gas sector and the rest of the economy be developed and that the economy of Cabo-Delgado becomes insular; (ii) that the revenues collected from the gas sector are not adequately managed and distributed, frustrating heightened societal expectations. Possible ways to avert this situation, include the setting-up of appropriate fiscal rule or the setting-up of a sovereign wealth fund to manage the revenues that might accrue from the gas sector.

E. Environmental and spatial drivers

This sections describes the main environmental and spatial drivers of fragility.

Exposure to extreme weather events. Mozambique is prone to extreme whether events such as drought (particularly in the south); floods (mostly around floods plains of main river basins such as the Limpopo, Maputo, Buzi, Incomati, Save, Púngue, Zambezi and Umbeluzi) and tropical cyclones (with nation-wide effects). Lack of adequate social and economic infrastructure to enable prevention, mitigation and adaption measures, render the country susceptible to loss of crops, displacement of people, loss of assets (property and animals), land degradation, saline intrusion and erosion. Droughts or floods also affect macroeconomic performance and poverty incidence given that 80% of the population lives of agriculture which is mostly rain-fed.

Addressing these extreme events requires massive resources. Therefore, prioritization, sequencing and build-up of large partnerships between the government and development partners with interest in building resilience to climate change needs to be strengthened. Entry points include (i) beefing-up the capacity of the natural disaster management institute (INGC), (ii) intensification and massification of early warning information delivery systems in areas prone to natural disasters; (ii) strengthening of the fire department's capacity across the country, (ii) promotion of climate change resilience variants of crops essential to food security in Mozambique and (iii) access to financial products insuring against the impact of extreme weather events

Risk of generalized sea water level rising. Mozambique has 2700 km of coastline which is home to two-thirds of the population and economic infrastructure that includes factories, tourism-housing, residential property. Places such as the city of Beira which falls below the sea level have been experiencing damage to infrastructure (e.g. roads) due to sea-water invasion and with the projected rise in seal water levels by 96 cm by the year 2100, not the just the city of Beira, but the entire coastline is at a risk of inundation. Moreover, the location of Mozambique at the downstream of many water courses in the SADC further aggravates the risk of inundation and well as already experienced during the year 2000 floods in the south.

Mitigation and adaption measures should include, (i) implementation of Mozambique's green growth strategy; (ii) improved capacity to plan for climate resilient infrastructure and (iii) mobilization of climate funds.

High biomass consumption causing stress on natural capital. With 80% of the population of the living in rural areas, consumption patterns based on fossil fuel, becomes a function of income and low urbanization. Lacking both income and access to clean sources of energy, the rural population rely heavily on wood energy for consumption and as a source of income, which leads to deforestation and erosion given the limited reposition practices. Large scale illegal logging has also been playing a role in deforestation and erosion as well as possibly creating an environment vulnerable to illicit fiscal flows and terrorism financing

As entry points to capitalize on the government's efforts to further increase electricity penetration (now at 35%), opportunities presented by key developments partners such as the AfDB with its focus on lighting up and power Africa and accelerated delivery of the SDG 7 (Sustainable Development Goal 7) should be further explored as delivery option, particularly in a country with great potential for solar energy development.

F. Conclusions and recommendations

This report has presented and described the main drivers of fragility in Mozambique. The note was fed by in-country interviews across private sector, Government and civil society; desk-research review and consultations with Bank staff. The preliminary conclusions ,indicate that the current main drivers of fragility in Mozambique include (i) a relatively high but non-inclusive economic growth; (ii) weak and politicized state institutions; (iii) exposure to extreme whether events and risk of sea water level rising (iv) inequality along economic education and political party allegiance lines (v) economic and social infrastructure bottlenecks ; (vi) limited social dialogue and (vii) porosity in the current framework for public finance management.

The report points out that sources of change and resilience include the (i) existence of a strong ruling political party with a political economy interest in reversing the current economic crisis for its owns survival; (ii) the existence of a large pool of young people which with adequate training and professionalization can shape the status of the labor force and foster economic growth; (iii) the existence of a huge appetite by many development partners to engage in climate change resilience building actions and (iv) the existence of large untapped tax base (as demonstrated by the low tax effort) that can be optimized to improve resources mobilization. Therefore, interventions aimed at improving and expanding economic and social infrastructure (due to their multiplying effect); improving the skills of the labor force; improving economic governance; strengthening resilience to climate change and diversify the production and exports base, should be mainstreamed in the CSP

Annex XIV – Country Strategy Paper Risk Mitigation

Political Developments

Mozambique is currently experiencing a period of political renewal marked by a degree of uncertainty, with a newly elected president and ongoing disputes, sometimes violent, with main opposition party. The stability enjoyed since 1992 ended in 2013 when the former rebel movement turned main opposition party RENAMO, broke the enduring peace angered by what it deemed unfair electoral laws and exclusion from political and economic life by the FRELIMO party, ruling effectively since 1975. The ruling FRELIMO won the 2014 elections with majority but, with a smaller margin to RENAMO and the more recent opposition party Mozambique Democratic Movement (MDM). Despite assumption of duty by oppositions MPs, RENAMO is still disputing the results and military confrontations have taken place. The escalating situation resulted in severe social and economic impact. The conflict disrupted business and created thousands of internal refugees, but also in Malawi and Zimbabwe. There has been a series of what appears to be targeted killings of members of RENAMO and civil society, allegedly attributed to FRELIMO by the RENAMO. Peace negotiations with international meditators failed, but a cease-fire in December 2016 has been extended sine-die. Municipal elections are scheduled for 2018 and political instability can resume.

Mitigation Measures. The political-military situation is bound to remain uncertain posing both as a source of economic uncertainty and a fragility risk driver. The Bank is to closely monitor the situation.

Access to ADB Sovereign Window

The country's debt levels have escalated rapidly due to expansionary fiscal policies and large investments, as well as a considerable share of commercial borrowing for military purposes. The hidden loans aggravated the Public and Public-Guaranteed external debt escalation during the previous 4 years, reaching at end-2016 about USD 12 billion, or about 125% of GDP. All the 5 debt sustainability thresholds[31] of the IMF Debt Sustainability Framework for Low Income Countries were breached. Current discussion between the IMF and the GoM on a new program are stalled over the hidden-debts situation.

Mitigation Measures. The Bank is to maintain close dialogue with the government on fiscal execution and debt management discipline, while informing the discussions with other development partners to facilitate a quick resolution of the existing stand-off between partners and the GoM that could open the door for an IMF program, which in turn would greatly contribute for the resumption of the country's debt into a sustainable path.

Religious radicalism

Mozambique experimented in August 2017 its first experiences of organized religious extremism attacks. Local radical groups performed organized attacks on security forces during a few days. The attacks took place in the extreme north region of the Cabo Delgado province, bordering Tanzania, where Muslims compose around 80% of the population. The area is also where the new multi-billion dollar LNG plant is to be located. The government initial response of armed suppression. However, these insurgencies could further escalate and jeopardize operations in the region, including the Bank's investments.

Mitigation Measures. The Bank is supporting specifically development efforts in the Cabo Delgado province to address inequalities and high-levels of poverty. The Bank will nonetheless maintain careful monitoring of the security situation.

[31] Present value of PPG/GDP of 67%/40% (limit); PV PPG/Exports of 232%/150%; PV PPG/Revenues 293%/250%; PPG debt service/revenues of 26.5%/20%; PPG debt service/Exports 23%/20%.

Annex XV – Assessment of Country Procurement System

Main issues identified

Legislative and Regulatory Framework:

- procurement related to defense and national security are to be carried out under direct contracting, and procurement undertaken by state owned enterprises (SOEs) are not subject to the application of the procurement law.
- there is no provision prohibiting fractioning of contracts to limit competition.
- there is no provision to extend the bidding period for International Competitive Bidding.
- the decree is silent regarding participation of State Owned Enterprises (SOEs) in tenders, which could lead to unfair advantage towards private sector competitors.
- the legal framework does not provide for mandatory bid opening promptly after bid submission.
- the legal framework contains provisions for review of complaints at the procuring entity level, however no independent review body is foreseen in the procurement decree.
- implementing regulations that supplement and detail the provisions of the procurement decree are not updated regularly, and the Government of Mozambique is still in the process to adopt regulations aimed at allowing adequate implementation of the procurement decree of 2016.
- the bidding documents are not updated since 2010 and the Government is in the process of updating the bidding documents in consistency with the procurement decree of 2016.

Procurement Operations and Market Practices:

- there is no clear process to monitor contract administration and address performance issues. Furthermore, enforcement of the outcome of the dispute resolution process remains a challenge.

Integrity and Transparency of the Public Procurement System:

- the “competent authorities” in charge of internal controls within contracting entities generally lack of capacity to properly perform their duties. Moreover, there is no proper balance between timely and efficient decision making and risk mitigation in the internal and external controls.
- the complaint mechanism system, as established, allows for higher level appeal after a decision on the recourse by the procuring unit, to the line minister of the procuring entity. However, those responsible to issue final decisions (at administrative level) lack of capacity in terms of procurement.
- there is no independent appeals body at administrative level. Indeed, final decision at administrative level lays on the head of the contracting entity. This is a major risk in the trust of the system by the stakeholders, in particular the bidders/private sector.

Annex XVI – Piloting OPSC's 2014 CSP Framework

This CSP piloted OPSC's 2014 CSP Framework in a collaborative effort with between MZFO, OPSC, COSP, and ORQR departments, as well as with contributions from different sector departments, and under the guidance of Southern Africa Resource Centre (all in its designations at the time). NB: This CSP does not pilot DAPEC's *Policy Brief for the Country Strategy and Regional Framework*, currently under preparation for Board discussion, which has evolved since the original 2014 proposal and has been developed under the leadership of DAPEC.

Following the implementation of the OPSC 2014 New CSP Framework, for the preparation of the CSP document was required: (i) a cross-cutting set of Analytical Notes on the countries challenges (ii) a Issues Note providing an in-depth and comprehensive analysis of all the development challenges and opportunities for the country; (iii) a Completion Report assessing the implementation and achievements made under of the current CSP 2011 - 2015; (iv) an extensive process of in-country auscultation with all stakeholders conducted during a period on several months, taking advantage of different sector missions; (v) as well as a continuous country dialogue by the field-office. A Country Portfolio Performance Review was undertake to identify specific and critical issues affecting portfolio performance and formulate relevant recommendations for improvement, resulting in the attached Country Portfolio Improvement Plan. A new 3 year Country Business Program of investment operations and policy based operations, using sovereign and non-sovereign resources, in addition to a knowledge and advisory program. The Business Program is intended as a rolling 3 year program, to be continuously developed and refined during the CSP period based on a constant dialogue with the clients. This Country Strategy Paper also includes a revised monitoring and evaluation framework – the New Results Tools - for measuring the Bank's engagement performance with the country and the strategic alignment with governmental priorities.

The main components of OPSC's 2014 CSP Framework incorporated in the CSP document were:

a. A One Bank Approach – a CSP Team consisting of technical experts in the core priority areas and areas of special emphasis of the Bank' Strategy was set up to develop the country strategy under the leadership of the country/regional director.

b. Country Ownership – The strategic proposal was confirmed and endorsed by the Government, which is also responsible for identifying proposals of priority projects and programs to be funded by the Bank during the CSP program cycle.

c. Bank's Agility – the CSP preparation and the project development activities, was built on the extensive partnerships the Bank has in the country, exploring collaborative arrangements and opportunities with other DPs, including bilateral agencies and private sector investors.

d. Field Driven – CSP development and implementation process was field driven, with Regional Resource Centre taking the lead.

e. Robust Analytical Work – The CSP was underpinned by analysis of country context guided by an analytical framework established by the Bank along the objectives of the Bank's Strategy, including the Green Economy Action Plan and the Southern Region Power Sector Review.

f. Alignment of the CSP with the Bank's core objectives – The CSP is aligned by the Bank's strategic framework provided by the Ten-year Strategy and the High5s and corporate strategies, in particular for Energy, Jobs, Gender, and including the Technologies for African Agricultural Transformation (TAAT) program.

g. Strategic Selectivity – The Bank has identified a set of key selectivity criteria to determine the CSP's strategic and operational choices to best support the country's economic transformation and overall socio-economic development (Crucial challenges and opportunities; Bank's comparative advantage and Lessons learnt; Stakeholder consultations and country strategic framework; The Bank's corporate strategic framework and analytical work).

h. Tailored to Country Circumstances – The strategy is adapted to the country's unique political, social and economic transformational imperatives, business challenges and opportunities reality, in particular the current financial constrains that affect Mozambique.

i. Catalyze Resources – Particular focus is given to leveraging Private Sector funding, including through platforms such as the African Investment Forum. The use of the new financial instruments such as Partial Risk Guarantee (PRG) and Private Sector Facility (PSF) will potentially expand the Business Program and add value to the ADF resources.

j. Results Driven – The monitoring, tracking and evaluation of the CSP and its implementation will be based on the following mechanisms: (i) at the national level both through the GoM program implementation monitoring through the PQG monitoring matrix; and (ii) through the Country Performance Engagement Matrix (see Annex III) according with the new Results Tools developed by Operations Committee Secretariat And Quality Assurance department (SNOQ). A traditional Results Based Logical Framework is also provided. At mid-term of the CSP, a review will provide an opportunity to reassess and if needed realign the strategic goals with government priorities. At CSP completion, a Completion Report will be prepared with a detailed performance analysis and the results achieved. Finally, through continuous country dialogue, with a monthly, quarterly and annual periodicity, the GoM and the Bank monitor and track project implementation progress.

k. Continuous Dialogue – In support of the strategic objectives, dialogue and business development will build on the continuous dialogue and groundwork developed by the Country-Office. The Bank will strengthen its positioning as a knowledge institution both with the government and other stakeholders, taking full advantage of its local presence in the country.

In accordance with the New OPSC 2014 CSP Framework, issues of special attention in the CSP process that were required to be addressed were:

i. Strong alignment between the CSP and the National Development Priorities - The strategy has the endorsement of the GoM and responds to its request for piloting the New Deal for Energy for Africa. The priorities are aligned with the country's strategic framework, specifically the ENDE focus on economic diversification and industrialization, and the PQG 2015-19 2nd and 3rd priorities, and were informed by a consultation with civil society and private sector. In addition the CSP used the newly developed Strategic Alignment Matrix, part of the New Results Tools, to ensure strategic alignment.

ii. Robust Diagnostics of Private Sector Development (PSD) imperatives. A Country Context and Diagnostic Note, including a specific note on Private Sector, was prepared to base the CSP preparation.

iii. Better reflection of lessons learnt from previous strategies and portfolio management. The strategic selectivity process was informed by the lessons learned from the previous CSP implementation and capture in the Completion Report.

iv. The use of Innovative Financial Instruments – The CSP considers in its proposed program the use of innovative financial instruments such as Partial Risk and Credit Guarantees, and Results Based Financing, as well as blended finance modalities between sovereign and non-sovereign resources.

v. Mainstreaming of Areas of Special Emphasis - A further innovation was the systematic mainstream of governance in all Bank operations by focusing on improving sector governance (energy and agriculture). Similarly, gender analysis is systematically undertaken during the preparation of new projects to ensure that they promote equal opportunities. Priority is also given to mainstreaming climate change resilience issues in projects, as well as implementation of projects that promote regional integration.

Annex XVII – Matrix of CODE Comments

This annex contains the deliberations and recommendations contained in the minutes of the meeting of the committee on operations and development effectiveness (CODE) held on 26 September 2017, where the Mozambique was considered. Each deliberation and recommendation has been duly addressed, as registered in this matrix.

#	Comments	Document	Response
69	**CODE DELIBERATIONS**		
1.	***Selection of pillars/CSP implementation****: Committee members invited Management to better define the proposed pillars so as to ensure the clarity of the objectives and the planned activities, thereby resulting in a better implementation and evaluation of the results. They then pointed out the ambitious nature of the proposed pillars in view of the limited resources available and called on Management to be realistic in this regard. More selectivity will also be required to ensure greater impact. Executive Directors present wanted to know why natural resource management is part of Pillar II on Agriculture. They also wondered whether it would suffice to treat governance as a cross-cutting issue given country's constraints in this area. In this regard, they asked for more details on how this issue would be integrated into the other areas and called for it to be well reflected in the two pillars.* *With regard to natural resources management, Executive Directors requested that a paragraph on gas exploitation be included in the document, given the important role of gas development in the economic development of the country. In addition, Committee members and other Executive Directors invited Management to take into account the weaknesses and specific constraints identified in the previous CSP and*	CSP Document Chapter 1 – Introduction, §43, §57, §60	Management acknowledged the ambitious nature of the proposed pillars in view of the limited resources available, but stressed that the Bank will play a key role as facilitator/ catalyst, strengthening partnerships and co-financing with multilateral and bilateral institutions, private sector and global funding initiatives in the areas of infrastructure and agriculture. Management explained that it had chosen Agriculture as Pillar II, including natural resource management, to better align with government objectives and priorities, but also given the role of the sector in the development of the country and the Bank's comparative advantage on the matter within the region. Governance will be an integral part of all Bank activities in the country and the Bank will continue to dialogue closely with government in the context of development cooperation to help improve governance in the country. Management also assured the Committee that it had taken into account the weaknesses and constraints identified in the previous CSP and that appropriate measures had been taken, including capacity building, organization of technical training and regular dialogue with the various stakeholders. Every effort will be made to ensure that the full version of the CSP is available in the first half of December 2017. To increase selectivity, the pillars' titles have been made more specific in terms of sectoral scope. The pillars are: **(1) Development of infrastructure to enable transformative inclusive growth and job creation;** and **(2) Support to agricultural transformation and value chain development.** The proposed interventions under each pillar are closely aligned with the strategic specificity of the pillar. Investment projects focus on Energy and Transport, and Agriculture. The

#	Comments	Document	Response
	take appropriate measures to remedy them. Some members questioned whether alignment of the CSP to the Government's five-year plan will not affect the implementation of the CSP after 2019, the year in which the five-year plan expires, and requested that this issue be taken on board during the CSP mid-term review. Finally, Executive Directors invited Management to make sufficient efforts to ensure that the full version of the 2017-2021 CSP is available as soon as possible.		proposed projects have a multiplicity of positive impacts. See Chapter 1 – Introduction for the pillars detailing as well as §43. The mainstreaming of Governance in the CSP will be done by first addressing sector governance issues under the respective pillars; second, by addressing governance issues specifically in natural resource management. The Bank has selectively targeted PFM related areas in urgent need of support under the selected sectors of intervention. Furthermore a Macroeconomic Stability Knowledge Program is proposed, entailing short policy-notes and advisory work to assist debt reduction, domestic resource mobilization and revenue management, as well as the financing framework for public investments within the areas of specific strategic focus of the CSP, including the review of the national PPPs framework. See §60 for a list of non-lending activities. Natural Resources Management is strategically fitted under the cross-cutting approach to Governance. The Bank is proposing a specific knowledge work program on Natural Resources management, which will include advisory on management of fiscal revenues from natural resources. See §57 for a detailing of Governance activities.
2.	*Political and Economic developments in the country: Executive Directors expressed concern about Mozambique's high level of indebtedness and were of the view that it would be preferable for the country not to have access to the ADB window until its debt sustainability can be ensured. With reference to a recent World Bank report, some Executive Directors sought clarification on the situation of that country's fragility. They also requested that special emphasis be placed on the reduction of regional inequalities in the country. Finally, some Executive Directors proposed that the resources available be channeled to projects with social and economic impact.*	CSP Document §42, §61 and Annex XV	Management assured the Committee that the country will not be given access to the ADB window as long as its debt sustainability is not ensured. Regarding the situation of fragility in the country, Management informed the Committee that it was currently working closely with the World Bank at the local level to assess the situation See §61 on non-eligibility to access ADB; See Annex XV for comprehensive Fragility Assessment. See §42 for main innovations in the strategy that include addressing spatial inequalities. See Annex I for a complete list of high-impact projects on Agriculture, Transport and Energy.

#	Comments	Document	Response
70	**RECOMMENDATIONS**		
3.	*better definition of the proposed pillars in order to ensure clarity of objectives and planned activities*	CSP Document	To increase selectivity, the pillars' titles have been made more specific in terms of sectoral scope. The pillars are: **(1) Development of infrastructure to enable transformative inclusive growth and job creation;** and **(2) Support to agricultural transformation and value chain development.** The proposed interventions under each pillar are closely aligned with the strategic specificity of the pillar. Investment projects focus on Energy and Transport, and Agriculture. The proposed projects have a multiplicity of positive impacts. See Chapter 1 – Introduction for the pillars detailing as well as §43.
4.	*ensuring better selectivity for greater impact*	CSP Document section 4.1 and Annex XVIII	To ensure strategic selectivity and greater impact a rigorous methodology was used. See section 4.1. Rationale and Strategic Selectivity and Annex XVIII on the CSP Strategy selection criteria process.
5.	*providing more detail on how governance will be mainstreamed in in other areas and ensuring that governance is well reflected in the two pillars*	CSP Document §57	The mainstreaming of Governance in the CSP will be done by first addressing sector governance issues under the respective pillars; second, by addressing governance issues specifically in natural resource management. The Bank has selectively targeted PFM related areas in urgent need of support under the selected sectors of intervention. Furthermore a Macroeconomic Stability Knowledge Program is proposed, entailing short policy-notes and advisory work to assist debt reduction, domestic resource mobilization and revenue management, as well as the financing framework for public investments within the areas of specific strategic focus of the CSP, including the review of the national PPPs framework. See specific reference to Governance and its treatment in the CSP on §57.
6.	*taking into account the limited resources available by prioritizing projects with social and economic impact;*	CSP Document Section 4.1 and specifically §36, as well as Section 4.6	Given the highly limited level of concessional resources available for Mozambique (see section 4.6 on available resources), the Bank has identified a set of key selectivity criteria to determine the CSP's strategic and operational choices to best support the country's economic transformation and overall socio-economic development. See Section 4.1 and specifically §36 where the limited financial resources are a starting point for the strategic selectivity.

#	Comments	Document	Response
7.	*respecting the conditions for access to the ADB window and ensuring debt sustainability before granting access to the ADB window*	CSP Document §63	Mozambique is not in a position to be eligible for accessing sovereign non-concessional ADB resources. Close dialogue with the GoM will assist in addressing key macroeconomic constrains, in particular debt management and effective domestic resource mobilization, in particular regarding the Natural Resources sector, towards the long-term aspiration of accessing ADB sovereign funding
8.	*including a paragraph in the document on gas exploitation*	CSP Document §26 and Box 3	A detail discussion of the Natural Gas sector as well as the current and planned large scale projects in the sector are provided in paragraph 26 and Box 3 – The Rovuma natural gas project
9.	*taking the necessary measures, particularly during the mid-term review of the CSP, to ensure that the CSP pipeline maintains its relevance after the Government's five-year plan (2014-2019)*	CSP Document §65	At CSP mid-term review programmed for 2020 will provide an opportunity to reassess and if needed realign the strategic goals with government priorities.
10.			

END NOTES

[1] The strong fluctuations in the Metical valuation against the US dollar since 2014 have severely impacted the country's GDP and GNI valuation in US dollar terms. While still achieving an average GDP real growth rate per year of 5.3% between 2014 and 2016, in US dollar terms Mozambique's GDP went down from USD 16.9 billion in 2014, to USD 14.5 billion in 2015, and USD 11 billion in 2016.

[2] Given the overweight of the Agriculture sector and the Mozal Aluminium smelter plant within the Manufacturing sector (i.e. 80% of the sector and 25% of the country's exports), annual GDP composition are vulnerable to temporary oscillations in agriculture productive season and world aluminium prices. The devastating floods that occurred in the beginning of 2000 curtailed GDP growth to 2.1% in that year, mostly affecting agriculture production, and distort the GDP composition of 2000. In 2002 the agriculture sector had recovered completely and represented 24% of GDP.

[3] The Mozal aluminum smelter plant project was Mozambique's first megaproject after independence. The USD 1 billion investment made by BHP Billiton in 1998 is regarded as the opening door of the Mozambican economy to large FDI. It boosted the manufacturing sector's share in GDP from 14% in 1995 to 20% in 2000. Since then the sector has underperformed the economy. In 2016 Mozal was responsible for 25% of exports, 6.3% of GDP and 73.3% of Manufactoring output.

[4] Only 0.7% of enterprises qualify as Small enterprises (5-49 employees) and 0.02% are of medium size (50-100 workers).

[5] The Mozal project was followed by several multi-billion dollar large-scale export-oriented projects financed by foreign capital in the natural gas (2001), titanium (2005) and coal (2005, 2007), that are known locally as "megaprojects", and serve as catalyser for economic growth.

[6] Mozambique produces natural gas since 2004 from the on-shore gas fields of Pande and Temane, in the Inhambane province (centre of the country) with proven reserves of 3.2 trillion cubic feet (tcf).

[7] A new central bank governor – Rogerio Zandamela - was appointed in September 2016, replacing Ernesto Goveia Gove, who served as Governor of the Bank of Mozambique for 20 years. The new governor came at a time when inflation had creeped to 20% and the Metical suffered the biggest devaluation against the USD of all African currencies.

[8] Mozambique benefited from windfall revenues from one-off capital gains taxes related to the consolidation of gas ownership structures in the Rovuma Basin. In between 2012 and 2015, more than USD 1.3 billion were received in capital gains tax curbing overall fiscal deficits and boosting foreign currency reserves.

[9] In face of the "hidden-debts case" Development Partners (DP) providing general budget support (GBS) suspended that modality's disbursements, including AfDB. Overall GBS represented on average 2-3% of GDP and 5-6% of budget. In addition some DPs further suspended disbursements to common funds. For more details on the hidden-debts see.

[10] From 2011 to 2015 on average Mozambique managed to allocate annually 13% of GDP to public capital expenditure, a relatively high share compared with other African countries. In 2016-17 capital expenditure was reduced to 4%.

[11] The negative trend in revenue collection derives from lower profits resulting from the economic slowdown, while taxes on goods and services are estimated to reach 43% of total in 2018 a 15% increase led by VAT. In spite of the fast expanding extractive sector, it is yet to generate considerable revenues given the amortization of investment and prior operating losses.

[12] At end-2017 public sector arrears in interest payment to private creditors and arrears amounts to the private sector are uncertain but estimated over 5.5% of GDP.

[13] IMF Debt Sustainability Analisys 2018, including government guaranteed external debt.

[14] Mozambique breaches 4 of the 5 thresholds for debt sustainability for a low-income country are (value/limit): Present value of PPG/GDP of 67%/40%; PV PPG/Exports of 232%/150%; PV PPG/Revenues 293%/250%; PPG debt service/revenues of 26.5%/20%; On the PPG debt service/Exports ratio Mozambique is slightly below the 20% threshold (18.2%), although it is expected to breach it in the medium term, at the time of the Mozam Eurobond redemption, reaching 26.4%

[15] Total stock of domestic debt is estimated at USD 3.5 billion. The fast increase in domestic borrowing show the government's difficulty in adjusting expenditure to lower donor funding and controlling public finances

[16] Commercial debt represents 10% of the USD 11.4 billion overall external public and public-guarantee debt, and 11% of GDP.

[17] Noticeable achievements include (i) introduction and rollout of the Single Treasury Account, (ii) continued implementation of e-SISTAFE currently about 85% of Government spending and 80% of districts, (iii) strengthening tax administration, (iv) introduction of the revised procurement regulations, (v) production of Fiscal Risk Declaration and (vi) publication of the Integrated Investment Plan.
[18] Annual megaproject related FDI average USD 2.6 billion in 2011-16, contrasting with less than USD 200 million in 2017.
[19] The Nacala Rail and Port project, currently the biggest on-going in Africa, is a 912 Km of rail line from the Tete province to the Nacala port through Malawi, amounting to USD 5 billion of which AfDB finances USD 300 million through a senior corporate loan.
[20]Exception made for fuel re-exports to Zimbabwe.
[21] Economic Complexity Index (ECI) from Harvard Universtity, http://atlas.cid.harvard.edu
[22] Technically the Netherlands are the official country exporting raw aluminum and importing aluminum bars from Mozal, making it the 1st trading partner of Mozambique with 32% of exports and 7% of imports.
[23] Individual entrepreneurs represent 93 percent of all enterprises, while micro-enterprises (1-4 employees) account for 6.6 percent and small enterprises (5-49 employees) are 0.7 percent. Only 0.02 percent of enterprises are medium size, employing between 50 and 100 workers.
[24] KPMG – Banking survey – financial services – October 2016
[25] The Global Competitiveness Index 2017-2018 edition
[26] National Institute of Statistics (INE) - Inquérito ao Orçamento Familiar - IOF 2014/15 (IOF14)
[27] National Institute of Statistics (INE) - Inquérito ao Orçamento Familiar - IOF 2014/15 (IOF14)
[28] 57.8% on female against 53.9% for male.
[29] United Nations Development Program (UNDP) Human Development Report, 2017
[30] Global Climate Risk Index, Germanwatch, 2017
[31] Climate Investment Fund, 2012
[32] Mozambique presented in February 2018 its intended Nationally Determined Contributions (NDCs), as per UNFCCC (2015) 'Adoption of the Paris Agreement'.
[33] This refers only public infrastructure, excluding the private infrastructure needs associated with extractive industries, and calculated in 2011. World Bank 2011 - Africa Infrastructure Country Diagnostic
[34] The Nacala Rail and Port project, currently the biggest on-going infrastructure project in Africa, is a 912 Km of rail line from the Tete province to the Nacala port through Malawi, amounting to USD 5 billion of which AfDB finances USD 300 million through a senior corporate loan. The project allowed for the ramping up of coal exports from Mozambique, which had a massive impact on the country GDP growth in 2017 (77% of total GDP growth).
[35]Integrated agricultural development can benefit from the creation of Staple Commodities Processing Zones (SCPZ). SCPZ are agro-based spatial development initiatives, designed to concentrate agro-processing/industrial activities within areas of high agricultural potential to boost productivity and integrate production, processing and marketing of selected agro-commodities. SCPZ will provide an ecosystem where shared facilities allow the interplay of agricultural producers, processors, aggregators and distributors to operate in the same vicinity to reduce transaction costs and share business development services for increased productivity and competitiveness.
[36] E.g. Cereal yields are 1/4 to 1/3 of Zambia and Malawi's
[37] In 2012, only 6.5% of smallholder farmers had access to extension services, while only about 9% of smallholder farmers used improved seeds for maize and 1% for rice.
[38] World Bank 2015
[39] Irish Aid 2017 - Prospects and Challenges: Mozambique's Growth and Human Development Outlook to 2040
[40] Agro-poles or Staple Commodities Processing Zones (or in some instances may also be known as Agro-Industrial Parks, Agribusiness Parks, Mega Food Parks, Agro-industrial clusters) are agro-based spatial development initiatives, designed to concentrate agro-processing activities within areas of high agricultural potential to boost productivity and integrate production, processing and marketing of selected commodities.
[41] The Beira Agricultural Growth Corridor (BAGC) initiative is the most developed "agro-pole" initiative. It is a partnership between the Government of Mozambique, private investors, farmer organisations and international agencies, launched in 2010 with the aims of promoting increased investments in commercial agriculture and agribusiness within the Beira Corridor (Tete, Sofala and Manica Provinces), in the centre of the country, linking by road and rail network the port of Beira to Zambia, Malawi, and Zimbabwe. It is estimated that its various micro climates can support the cultivation of 10 million hectares, 44 % of the entire country's arable land for assorted agricultural products, but only about 3% of this area is currently under commercial utilization. The corridor could support large scale production of maize, rice, soybean, sugar cane, horticulture, poultry and cattle. http://beiracorridor.org/.

[42] The Extractive Industries Transparency Initiative (EITI) is a global standard to promote the open and accountable management of oil, gas and mineral resources, which seeks to address the key governance issues of the oil, gas and mining sectors. Mozambique is one of 53 EITI implementing countries. Each EITI implementing country must publish to an annual report disclosing information on such matters as contracts and licenses, production, and revenue collection and allocation.

[43] Adjusted Net Savings can be used to measure whether a country is investing extracted resources into other forms of capital (e.g. human, physical, etc.)

[44] In 2010 the share of physical capital in total wealth stood at 5%, while the SSA average was 13% (World Bank, 2014).

[45] The first megaproject in the gas sector was the Sasol project, also finance by the AfDB, that initiated activities in 2004. The project explores the on-shore reserves in Pande/Temane fields with 3.2 tcf. proven reserves

[46] The first investment decision taken on the exploration of natural gas at Rovuma Basing was done by ENI in 2017, for the exploration of the Coral off-shore field, through the use of a Floating Liquefy Natural Gas vessel. The vessel will explore the 2.5Tcf of proven reserves. However the Coral field is approximately 1.4% the size of overall estimated reserves in the Rovuma Basin.

[47] Natural Resource Governance Institute, 2017.

[48] SE4All 2017- Global Tracking Framework.

[49] Because of long-term export agreements effective generation domestically available is only 35%.

[50] The main goals for the development corridors are: (i) connect the disperse areas of the country to ensure social inclusiveness, (ii) connect fertile and natural resource rich areas to markets, and (iii) use the country's location as a regional hub

[51] It has an estimated 217 billion m3 renewable water resources of which more than 50% is a flow from upstream countries.

[52] The country did not attain the MDG for urban and rural water and sanitation of 70% to be achieved by 2015, with only 26% attained.

[53] World Bank, 2004 - A report compiled for the National Water Development Program

[54] This a consequence of cash crunch facing the Government and is a situation felt across the donor community.

[55] The PQG 2nd priority is the economic and social infrastructure development through the sustainable growth and quality improvement of essential and vital socioeconomic infrastructure for the promotion of private sector productive activities, with priority to studies, construction, rehabilitation and maintenance of large social and economic impact infrastructure, especially hydro-agricultural, urban and rural water supply, dams, roads and bridges. Its 3rd priority the promotion of agriculture production and productivity with the goal of increased employment and production as well as improving the competitiveness of the national economy and business, driven by the market-oriented agriculture, with strong involvement of the family and the private sector to generate jobs and income, ensuring food and nutritional security, the provision of raw materials for the domestic industry and generate surpluses for export.

[56] In particular the Economic Sector Works (ESW) on the Green Economy Action Plan and the Policy Note from the High-level Seminar on Managing the Coal and Gas resources.

[57] The Bank has ample experience in dealing with complex debt crisis in its member countries and facilitating dialogue platforms of development partners and governments, such as in Zimbabwe and Somalia.

[58] The goal is the sustainable growth and quality improvement of essential and vital socioeconomic infrastructure for the promotion of private sector productive activities, with priority to studies, construction, rehabilitation and maintenance of large social and economic impact infrastructure, especially hydro-agricultural, urban and rural water supply, dams, roads and bridges.

[59] The country's indicative overall Performance Based Allocation (PBA) has consistently been affected by both the reduced CPIA ratings and the Portfolio performance. The ADF 14th cycle is 32% lower than the previous ADF-13, in turn 34% smaller than the ADF-12.

[lx] United Nations Conference on Trade and Development 2012

[lxi] KPMG – Banking survey – financial services – October 2016

[lxii] The Global Competitiveness Index 2017-2018 edition

[lxiii] National Institute of Statistics (INE) - Inquérito ao Orçamento Familiar - IOF 2014/15 (IOF14)

[lxiv] Mozambique jobs diagnostic (World Bank, 2017).

[lxv] Mozambique jobs diagnostic (World Bank, 2017).

[lxvi] World Bank 2015 Service Delivery Indicators (SDI) report

[lxvii] United Nations Development Program (UNDP) Human Development Report, 2017

[lxviii] Global Climate Risk Index, Germanwatch, 2017

[lxix] Climate Investment Fund, 2012