Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Jun-2020 | Report No: PIDC28428

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Mozambique	P171664		Economic Linkages for Diversification (P171664)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Dec 01, 2020	Mar 30, 2021	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Economy and Finance	Ministry of Commerce and Industry, Ministry of Economy and Finance	

Proposed Development Objective(s)

The project development objective is to strengthen economic linkages to the extractives sector for MSMEs in targeted areas.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	100.00
IDA Credit	100.00

Environmental and Social Risk Classification	Concept Review Decision

Substantial	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Despite outstanding growth in the past 20 years, Mozambique is still one of the world's poorest countries.** GDP growth averaged above 8 percent during the post-war recovery until 2014, making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa (SSA). However, the vulnerability of the growth model was exposed in 2016 with the significant economic slowdown. Although poverty headcount ratio has been declining,[1] the total number of poor increased since 2000, also because Mozambique has among the highest total fertility rates in Sub-Saharan Africa.[2] Of a total population of approximately 29 million (2017), 11.3 million are living in poverty, mainly in the Northern regions. Access to basic services is low: only one in three households has access to safe water, one in ten to sanitation, and one in four to electricity. Mozambique ranks 180 out of 189 countries in the 2017 Human Development Index (HDI).

2. **Mozambique's non-inclusive economic development model has been driven by foreign direct investment (FDI) in extractive-led / capital-intensive sectors, with limited linkages to the local economy.** The country stood up as one of the largest recipients of FDI inflows in Africa[3] and the extractive sector has been a main driver of economic growth, but the economy is still dominated by the agriculture sector, which accounts for 25 percent of the GDP, and employs about 70 percent of the population (90 percent in rural areas). The services sector has generated most of employment growth in the economy, with almost two thirds of jobs created in the formal economy since 2002. Limited FDI linkages to the local economy hindered the country's ability to reduce inequality, which has increased especially in urban areas. With a Gini coefficient at 0.54 in 2014/2015,[4] Mozambique remains among the most unequal countries in SSA.[5] If Mozambique proceeds along the same development pattern, it is unlikely to achieve fast poverty reduction and shared prosperity for all.

3. **Economic growth in Mozambique was also recently disrupted by a series of natural disasters, health crisis, and a debt crisis.** Two devastating cyclones hit the country in 2019, destroying physical infrastructure, economic activities and taking a toll on human lives. Around 1.7 million of people were affected by the cyclone IDAI that hit Sofala, Manica and Zambezia,[6] especially rural and urban poor, while cyclone Kenneth, affected 250,000 people in Cabo Delgado.[7] Both events destroyed and damaged houses, businesses, and core infrastructure with damages and losses amounting to US$3 billion.[8] This happened while the country was still experiencing fiscal constraints triggered by falling commodity prices and the discovery of US$1.4 billion in previously undisclosed public debt, with dramatic consequences on the macroeconomic environment. More recently, the evolving COVID-19 crisis in 2020 could potentially have a large impact on the economy. The main immediate economic impacts from COVID-19 include the postponement of the investment decision for one the

[1] The poverty headcount fell from 52.8 percent in 2002/03 to 46 percent in 2014/15.
[2] Children aged 0-14 represented more than 45 percent of the population in 2015. The total fertility rate was of 5.3 children per woman (DHS 2015).
[3] In 2002, FDI inflows stood at US$347.58 million, but by 2013 they had reached US$5.9 billion, placing Mozambique above Nigeria as the largest recipient of FDI inflows in Africa in the period (Business Day, 2014).
[4] World Bank, Development Research Group. World Bank Global Development Indicators, 2014.
[5] Mozambique Economic Update, 2018.
[6] World Bank, 2020. Mozambique Economic Update: Mind the Rural Investment Gap.
[7] Government of Mozambique. 2019. Post Disaster Needs Assessment.
[8] Government of Mozambique. 2019. *Ibid*

most important gas projects,[9] cancelation of all tourism bookings, closing of restaurants, shortages in the supply of food items for informal markets with the closing of borders, and a number of disruptions in export-oriented sectors like agribusiness, fisheries, and coal. Other sectors impacted include personal services, financial services, construction, transport, and real estate.[10]

4. **Despite the challenging outlook, Mozambique faces at the same time a unique transformative opportunity upon the discovery of gas reserves that can make the country the fourth largest exporter of natural gas in the world.**[11] The discovery of large off-shore gas reserves in Cabo Delgado province (Palma district) prompted massive FDI that is projected to raise exports of Liquid Natural Gas (LNG) and fiscal revenues significantly by the mid-2020s.[12] The development of the LNG projects in Cabo Delgado can generate over US$ 60 billion of direct investment. The two main gas projects (Area 1 and Area 4) are expected to create over 30,000 direct jobs in their five-year construction phase (less than one third local), and then reduce to about 3,000 direct jobs in the following 20 plus years of operation.[13] Jointly with the ongoing coal in Tete, the Nacala corridor, the gas in Inhambane, and the aluminum smelter in Maputo, the gas investments constitute a renewed opportunity at a much larger scale of developing linkages of megaprojects with the rest of the economy. Mozambique has the chance of creating lasting impact on the economy through the creation of new and better jobs for a wider group of the population.

5. **The opportunity to leverage on extractives is arriving in the context of social unrest.** Since 2017, the northern province of Cabo Delgado has suffered from episodes of violence, linked to Islamic-inspired extremist terrorism. The first attack happened in October 2017, when the Islamism group called “Ahlu Sunna wa-Jama” hit several police stations, government officials, and residents in the town of Mocímboa da Praia. Poverty, unemployment, and education gaps have allowed insurgent leaders to exploit feelings of bitterness and marginalization among local communities. Attacks, during which homes and entire villages have been burnt, and men, women and children killed, have now become common and have displaced at least 100,000 people and caused hundreds of deaths.[14]

Sectoral and Institutional Context

6. **Mozambique’s private sector is mostly comprised of informal small-scale enterprises.** The informal sector represents about 90 percent of the enterprises in Mozambique,[15] but only 31 percent of GDP.[16] Formal sector firms have been increasing in Mozambique, albeit at a slow pace. Formally registered enterprises increased by 60 percent to almost 43,000 from 2003 to 2016. Over 85 percent of these firms employ less than 10 people, whereas only 2 percent of them employs 100+ workers.[17] Firms in the formal sector are relatively new, with over 50 percent of the firms being between 2 to 5 years old. Geographically, about 35 percent of the firms are in Maputo, while 20 percent of them are in the Northern Provinces, where most of the extractives’ investments are going.

7. **Agriculture continues to play a critical role in the economy and agglomeration is nascent.** Most of the country is rural, urbanization is still nascent, and given the vastness of the country, population is scattered with very limited agglomeration centers beyond the capital city and two other major cities. Cabo Delgado, the host province of major

[9] https://furtherafrica.com/2020/03/21/coronavirus-gas-slump-delays-exxons-mozambique-plans/
[10] World Bank Group. forthcoming. Mozambique Country Private Sector Diagnostic (CPSD).
[11] World Bank Group. forthcoming. Mozambique Country Private Sector Diagnostic (CPSD).
[12] World Bank. forthcoming. Jobs Strategic Note.
[13] World Bank Group. forthcoming. Mozambique Country Private Sector Diagnostic (CPSD).
[14] https://www.thenewhumanitarian.org/analysis/2020/02/12/Mozambique-Cabo-Delgado-militancy-Islamic-State-Al-Shabab.
[15] WBG staff using Enterprise Survey data (2019).
[16] Medina and Schneider. 2018. Shadow Economies Around the World: What Did We Learn Over the Last 20 Years? IMF WP/18/17.
[17] World Bank. 2018. Mozambique Jobs Diagnostic.

investments in the gas sector, has a population of 2.2 million people, of which 77 percent live in in rural areas. About 85 percent of the population of Cabo Delgado is self-employed in agriculture, forestry and fishing activities (92 percent of them), services (5 percent) and in extractives (1.8 percent). Less than 5 percent of the population is employed in the formal public and private sectors. The capital of the Province (Pemba) and Afungi/Palma district (further north) may undergo enormous industrial and economic development, as a result of the investments. Pemba is expected to become a service hub, while the Palma district could receive an influx of over 100,000 people in the coming years.[18] Afungi is at the moment the main center beyond Maputo of the COVID-19 outbreak.

8. **Extractives have the potential to impact the wider economy in Mozambique**. In addition to direct job creation, prospects of extractive megaprojects both in mining and gas can be turned into opportunities for wider economic and social development. A recent study carried out by Standard Bank[19] presents the potential impact of the Area 4 project on the Mozambican economy through a two-scenario forecast: a US$ 27 billion investment (low-capex scenario) and a US$ 32 billion investment (high-capex scenario).[20] Over the next 30 years (construction plus operation), GDP increase from the project is estimated to be between US$ 15 billion (high-capex scenario) and US$ 18 billion (low-capex scenario) per annum.[21] Also, the potential for indirect and induced job creation may be outstanding. The Area 4 gas project committed initially to a US$ 3 billion local content target. Although with limited direct jobs creation[22], it is expected to help generate over 250,000 indirect and induced jobs[23], out of which 99 percent are expected to be created from economy-wide impact (64 percent) and supply chain contribution (35 percent).[24]

9. **As International Oil and Gas Companies (IOCs) take actions to enhance local participation, including through Corporate Social Responsibility (CSR) programs, an integrated approach that brings together private and public efforts is required.** In most oil and gas (O&G) projects, investors are called to ensure that part of the value created benefits the local economy. Usually, interventions include focus on workers that the IOCs will need to hire, and private sector suppliers that have already shown readiness for the industry, with the objective of minimizing the time and the level of the training needed to comply with industry standards within the limited timeframe available.[25] This means that many Mozambican firms (especially SMEs) and workers will end up missing out on opportunities considering the gaps in their readiness. This calls for an early start of coordinated interventions by the government and the private sector to ensure the maximization of economic opportunities for local firms and employees.

10. **In spite the potential for involving the local private sector in the extractive value chains in Mozambique is significant, firms and workers in diversifying sectors face several challenges.** The main reason for the current limited local procurement in the extractive sector is the limited capacity of domestic firms to supply inputs in the required scale and quality demanded by the extractive industry**.** Creating an enabling environment for value chain development is fundamental to support job creation in upward, downward, and consumption linkage opportunities. For Mozambique to take advantage of this opportunity, it needs to address challenges in business environment and in private sector development issues.

[18] Dobbin & Rafael. 2019. Dobbin International Inc, Strategic Spatial Development Planning, study for Cabo Delgado.
[19] Standard Bank. 2019. Rovuma LNG Project: Macroeconomic Study.
[20] Area 1 project has a similar US$ 30 billion investment.
[21] In either scenario, that is 100 percent current level of GDP.
[22] 5,000 local staff will be engaged to fill 3,600 full-time equivalent positions: skilled staff 30 percent, semi-skilled staff 40 percent, unskilled staff 30 percent.
[23] This is in the high-capex scenario. Over 300,000 jobs in the low-capex scenario.
[24] Standard Bank. 2019. Rovuma LNG Project: Macroeconomic Study.
[25] World Bank. 2018. Leveraging a Large Capital Investment to Develop Local Value Chains: 'Local Content' in the Construction of Tanzania's LNG Facility

11. **Mozambique firms' score low on measures of firm capabilities**. Mozambique is ranked 137 out of 141 in the World Economic Forum's Global Competitiveness Index (GCI), mostly due to low scores in hiring foreign labor, female participation in the formal labor force, pay and productivity, and reliance on professional management. Weak management practices of Mozambican firms mean lack of lean production mechanisms, limited development of talent, lack of planning and targeting, and limited use of documentation to capture lessons. Larger firms are more likely to employ more skilled workers and managers and provide additional training.[26] Even foreign-owned firms show relatively low management practices in Mozambique.[27]

12. **Access to finance for micro, small and medium enterprises (MSMEs) and agriculture producers remains significantly constrained**. About 75 percent of firms are financially excluded. The IFC estimates that the MSME financing gap in Mozambique was equivalent to 10 percent of GDP in 2017.[28] Lending to the agriculture sector is particularly limited. In 2017, agriculture was responsible for 21 percent of GDP, but credit to agriculture represented only 4 percent of lending to the economy (down from an average of 12 percent in 2000–2010). A difficult macroeconomic environment, limited domestic resource mobilization, lack of credit information, limited availability of collateral, limited access to credit risk-sharing facilities, limited diversification of financial products, help explain this gap. While firms that obtain contracts from extractives are able to secure banking finance against those future sales, important financing gaps on working capital and to upgrade technology still remain.

13. **Furthermore, private sector development in Mozambique is constrained by significant infrastructure gaps**. Mozambique is ranked 84th out of 160 economies in the 2016 Logistics Performance Index. Mozambique performs poorly in the quality of trade and transport infrastructure (ranking of 116th) and the competence and quality of logistics services (ranking of 97th). Mozambique has poor levels of electricity infrastructure, and problems of transmission and distribution losses. Furthermore, to meet the demand of ongoing urbanization, Mozambique will require major investments for the urban sanitation sector, which by some accounts are estimated at US$2.0 billion.[29]

14. **The investment policies and regulatory environment are also not supportive of private investment**. Mozambique ranks 138th out of 190 economies in the 2020 Doing Business Index, scoring weakly in the areas of starting a business, getting credit, enforcing contracts, and registering property. Legal requirements that limit foreign ownership or control of companies can potentially discourage FDI. Law No. 15/2011, and often referred to as the "Megaprojects Law," states that Mozambicans should participate in the capital of all main projects with 5 to 20 percent of the equity ownership. Equally, any new local content requirements to be introduced run the risk of discouraging investment because of the complexity and costs of complying with them.

15. **The labor and land regulations are not considered competitive to support formal access to productive inputs.** The minimum wage regime in Mozambique, with multiple amounts by sector and sub-sector, is administratively complex, creates enforcement challenges, and can lead to wage discrimination.[30] The quota system for foreign workers, which depends on the size of business, does not reflect the ever-changing demands of the market. On land, despite Mozambique being regarded as having one of the most progressive land policies and legislative frameworks for land governance in

[26] Lemos & Scur. 2014. Management Practices in Manufacturing in Mozambique. International Growth Center. F-36108-MOZ-1.
[27] Aga, Campos, Conconi, Davies, & Geginat. 2019. Are Firm Capabilities Holding Back Firms in Mozambique. World Bank.
[28] IFC. 2017. MSME Finance Gap, Assessment of the shortfalls and opportunities in financing MSMEs in Emerging Markets.
[29] National Urban Water and Sanitation Strategy, 2011.
[30] Given the low productivity of the private sector, the average minimum wage represents the 5th highest ratio of wage to productivity in the world, according to the 2020 Doing Business report.

Africa, the implementation of regulations is challenged by the weaknesses in capacity, lack of clarity on the scope of certain rights at the local level, and weaknesses in the land administration system especially at the local levels.[31]

16. **Women are at a disadvantage when taking private sector development opportunities**. Social norms with regards to accessing productive resources may make it more difficult for women to take advantage of local content initiatives or even new business opportunities linked to extractive operations. In addition, influxes of male workers, far from their families, with ready access to cash, often result in an increase in violence, particularly against women.

17. **Finally, regional fragility poses a threat to stability and equal economic opportunities for all.** Disparities have been growing between rural and urban areas, especially in Mozambique's central and northern provinces.[32] This left many territories vulnerable to internal and external insurgents, militants, and extremist groups, which have been impacting Cabo Delgado Province. To respond to these threats, economic opportunities can play an important role. Support to jobs in fragile contexts benefits not only the workers who receive support, but also the broader society. Measures to nurture the local private sector, reforming the investment and competitive environment, attract investments, build market-relevant institutions, reduce gender gaps, develop value chains, and connect the local entrepreneurial ecosystem with international markets are all important responses that may allow to develop resilience and mitigate risks.

18. **The institutional context for successfully addressing the opportunities brought by megaprojects requires a multi-stakeholder approach** involving various government actors and strategies, large corporates in extractives, SMEs and business associations, non-governmental actors, and development partners. In government, the institutional setting requires the involvement of central-level economic development Ministries, sectorial Ministries, development agencies, and provincial and district-level authorities. The involvement of these actors includes in the following areas:

i. **The Ministry of Economy and Finance (MEF) is responsible for establishing the government's strategic and long-term management instruments**. MEF oversees the generation and management of the resources arising from the extractive projects. These resources need to be leveraged for a larger impact. MEF leads the local content dialogue. MEF also hosts the Zambezi Valley Development Agency (ADVZ), responsible for regional development.[33] MEF is also coordinating the economic response to COVID-19.

ii. **The Council of Ministers approved In March 2020 the creation of a Development Agency for the North (ADIN)**, to support the socio-economic development of the provinces of Cabo Delgado, Niassa and Nampula. This agency has the mandate of reaching local communities and help support economic opportunities, while mitigating the risks of social unrest.

iii. **With regards to private sector development policies, the Ministry of Industry and Commerce (MIC) is responsible for the formulation, development and implementation of sector policies and strategies for the promotion of industrial production, trade, agriculture marketing, and exports.** Currently, MIC is developing a database where all companies potentially able to supply to the O&G sector can register and access information on procurement. MIC is also responsible for business environment reforms and some sectoral policies including

[31] In June 2018, the Council of Ministers approved a new Real Property Register Code. The Code regulates the registration of real property rights, including all DUAT titles (right of use of land). Amongst the changes introduced by the Code are the mandatory registration of all property rights, the gradual introduction of a national digital information platform, and the elimination of the territorial competency of the various registries.

[32] World Bank. 2020. Mozambique Economic Update: Mind the Rural Investment Gap.

[33] The Zambezi Valley geographical area of intervention includes all the twelve districts of Tete Province, nine districts of Zambezi Province, seven districts of Sofala Province and four districts of Manica Province, extending 225,000 square kilometers (25 percent of Mozambique) and including almost 25 percent of the total population of Mozambique.

internal and international trade and manufacturing. MIC also oversees a set of independent agencies, among which IPEME, INNOQ and APIEX that are important for the purpose of this project.

iv. **In addition to the economic development actors, the linkages to extractives agenda is shared with the Ministry of Mineral Resources and Energy (MIREME)** including independent agencies it oversees and its Local Content Task Force. MIREME is responsible for geological investigation, the exploration of mineral and energy resources, and the development and expansion of infrastructures for the supply of electricity, natural gas and petroleum products. MIREME's competences include to promote sustainable exploration of mineral resources, licensing activities for the exploration and use of mineral resources, control the implementation of regulations and general standards, and promote the addition of value to mineral products in the country. Moreover, the National Oil Company (*Empresa Nacional de Hidrocarbonetos,* ENH) is responsible for developing the domestic gas market and is seeking to be involved in all areas directly or indirectly related to the O&G sector.

v. **To encourage more demand-driven and bottom up approaches, subnational government agencies need to play a relevant role in the promotion of inclusive economic growth**. These comprise agencies for regional development (i.e. ADVZ, ADIN), provincial governments, districts, and municipalities. In addition, specialized agencies are responsible for specific topics of interest in this agenda including infrastructure-related agencies like the National Road Agency (ANE) and the agencies working on skills like National Authority for Professional Education (ANEP). Other sectorial ministries like Public Works and Agriculture and Rural Development will be key in aligning interventions on last mile infrastructure and local development for areas impacted by the megaprojects.

Relationship to CPF

19. **The proposed operation is fully aligned with the World Bank's ongoing Country Partnership Framework (CPF) for FY17– FY21.** In particular, the proposed operation will directly support, under Focus Area 1 ("Promoting Diversified Growth and Enhanced Productivity"), the strategic objective of "Improving the Business Environment for Job Creation" by addressing bottlenecks currently faced by SMEs, such as access to markets, as well as other inefficiencies that are hindering private sector opportunities. The Project will also directly support, under Focus Area 2 ("Investing in Human Capital"), the strategic objective of "Enhancing the Skills Base", by improving both government and private sector capacity.

20. **The project will be informed by the new Government Five-Year Plan (PQG[34])**. One of the key priorities of the government in its new 5-year program (2020-2024) is to support economic growth, increased productivity, and employment creation. The government of Mozambique would like to develop a more diversified and competitive economy, intensifying the productive sectors with the potential to increase income generation and create more job opportunities, especially for youth. The critical sectors of focus in the 5-year program include agribusiness, fisheries, tourism, infrastructure-related sectors, and extractives, including linkages to these opportunities.

21. **The project is very much aligned with the new World Bank Group Strategy for Fragility, Conflict, and Violence (2020–2025)**. Specifically, the project responds to the following priority issues identified in this strategy: investing in human capital; creating jobs and economic opportunities; and building community resilience and preparedness, especially regarding the impacts of climate change and environmental degradation. In addition, the project will be informed in design by lessons identified in the strategy including on systematizing the use of digital solutions; enhancing monitoring and evaluation (M&E) frameworks and systems; ensuring that the operation takes security considerations into account throughout the project cycle; engaging across the World Bank Group to develop the private sector and help create markets

[34] From the Portuguese, *Plano Quinquenal do Governo*.

in these settings; and scaling up engagement with civil society organizations (CSOs) and the private sector in delivering interventions.

22. **The proposed project is aligned with Pillar 1 of the World Bank Group Africa Region Strategy which focuses on competitiveness and employment and with the overall World Bank Group's focus on Maximizing Finance for Development (MFD) and Jobs and Economic Transformation (JET IDA 2019).** The JET framework for IDA19 has two pillars: i) creating and connecting to markets; and ii) building capabilities and connecting workers to jobs. The project will help build worker and employer capabilities including to promote female's economic empowerment. The project will also support enabling sectors to raise productivity and directly help connect firms to larger markets, which is one of the four policy areas under the JET IDA 2019 first pillar.

C. Proposed Development Objective(s)

The project development objective is to strengthen economic linkages to the extractives sector for MSMEs in targeted areas.

Key Results (From PCN)

The following are key results expected along the project interventions:

- Resources from private sector and other development partners leveraged by the project for relevant activities
- Increase in sales of firms supported by the project
- Creation of more and/or better jobs by the firms supported by the project
- Completion of business environment/investment policy reforms

D. Concept Description

23. **The project will focus on creating an enabling environment for linkages and value chain development, as well as supporting the private sector to effectively benefit from the economic opportunities that extractive megaprojects can bring.** The project seeks to leverage the extractive investments to make them inclusive and impactful for local economic development. The project will seek to leverage private funding through an MFD approach notably from the main investors in megaprojects, but also investors in other sectors, to support this agenda. The project will complement IFC and other important players' programs in this space. The project can contribute to the post-COVID recovery phase. Sequencing of activities will be designed to respond to the needs of the recovery phase. The design seeks to follow the best existing knowledge generated by the World Bank and others on COVID-19 economic response.[35]

24. **As an anchor program for private sector development, the project will be an important element as prevention and resilience mechanism against the risks of social unrest in the north of Mozambique, notably Cabo Delgado**. The project will pursue that by supporting private sector led economic development and shared value between linkages[36] and extractive industries. Firm-level support interventions will target selected categories of local MSMEs in conjunction with IFC´s program activities so that finance for private sector development is maximized. The project seeks to increase the government capacity to maximize development impact and foster the capabilities of MSMEs to participate in the extractives' linkages and related value chains.

[35] These include among others Africa Framework for Operational Response to the COVID-19 Pandemic and Global Crisis, The economic policy response to the Covid-19 crisis, Assessing the impact and policy responses in support of private-sector firms in the context of the COVID-19 pandemic, Do's and Don't on Trade Policy, WBG support for tourism clients and destinations during the COVID-19 crisis, and FCI COVID Response Compendium.
[36] In particular backward, consumption, and spatial linkages.

25. **The project has three components** (i) regional focused interventions to enable firms based in Mozambique to benefit from economic linkages to extractives; (ii) national engagements to enhance market access, coordination, and reforms; (iii) project implementation. The project prioritizes the Provinces of Cabo Delgado, Tete, and Nampula, which are some of main areas where extractives investments are taking place.

26. **The project may also include a fourth component for Contingency Emergency Response (CERC) with no allocation**. Given the high risk of climate-related floods, droughts, and cyclones, as well as of health crises like COVID-19, and conflict issues impacting targeted areas, the project would activate an Immediate Response Mechanism in such scenarios for quick emergency support.

Component 1: Increasing economic linkages through a regional focus

27. **Component 1 aims to drive economic linkages to extractives through a spatial approach.** The support covers backward linkages but also linkage opportunities associated with the consumption from staff in the large companies. This component will have a strong regional focus with the objective of diversifying the local economy. The component will apply MFD principles in its development and implementation. The project will seek to leverage various sources of finance, expertise, and solutions from extractive companies' in pursuing these opportunities. The component will also coordinate closely with the upcoming IFC shared-value platform for extractives in Mozambique, as well as other World Bank projects in preparation on infrastructure and community development, which follow a complementary approach.

Sub-component 1.1: Upgrading firms' capabilities and access to finance

28. This subcomponent aims to support diversification through helping MSMEs developing linkages with megaprojects. The economic linkages include supplier linkages (for "upper tier firms") or indirectly through consumption linkages or support to upscale to higher levels (for "lower tier firms"). This subcomponent will support both the development of existing businesses and new entrepreneurship. The project will develop the specific criteria to classify upper tier and lower tier firms and the tailored support based on their stage of development.

	Type of enterprise	***Capacity building***	***Quality standards***	***Access to finance***
Upper tier	SMEs Potentially supplying megaprojects and other more sophisticated markets (*indirect jobs from extractives*)	Customized advisory including: managerial practices; access to market support; navigating complex procurement processes.	Gap analyses on quality standards, technical assistance to comply with the quality standards, and certification processes	Support technology upgrading and adoption
Lower tier	MSMEs At a stage of limited delivery capacity or in sectors where linkages to extractives are through consumption linkages (*induced jobs from extractives*)	Customized skills: Training on soft skills and personal initiative; training on improving business and management practices; female entrepreneurship initiatives		Grants for products-processes upgrade

Firms with potential for upstream linkages

29. **For "upper tier" enterprises that aim to provide products and services in linkages to extractives, the project will deliver targeted supply-side support to reach the milestone of certified supplier status**, through close collaboration with the extractives industries. Upper tier enterprises are those that can potentially supply large investors. They create what is usually called indirect jobs from extractives. They have relatively good capacity, resources and technology to start with.[37] The objective of this support is to develop local content capacity that can respond to both immediate opportunities and future extractive operations. The idea is to eventually promote effective contracts between locally based providers and extractives companies. This can also be critical in the recovery phase from the COVID-19 downturn. Based on international experience and local assessments,[38] potential priority sectors include:

a. Food supply and catering: agro-industries (including horticultures, poultry, cattle); catering services;
b. Basic construction services: construction site preparation; basic electrical works; concrete works;
c. Indirect professional, admin, support services: security services; cleaning services; waste management services; transport services; some warehousing and storage services; utilities.

30. **This sub-component will support firms as potential service providers to the extractive sector through: (i) consulting services to increase firms' capabilities; (ii) quality certification support and (iii) access to finance solutions**. For those companies who perform well in the first stage (training stage), there will be the possibility of applying for support through certifications' assessments and processes of implementation. The subcomponent will also develop access to finance solutions that can help firms adopt new technology and capacity to reach a wider market.

Firms to serve consumption linkages or away from the frontier

31. **For "lower tier" enterprises, further from being able to supply directly to the operators, or those in sectors where linkages to extractives are through consumption linkages, the project will deliver a different type of support**. A key objective is to spur regional development from the investments to help *induce* job creation and better jobs. While the extractives investments can be critical to leverage other sectors, a large portion of the businesses around the projects are not going to benefit directly from the investments. The project's efforts and leadership will help orient resources to support wider economic development in the regions of focus. This can also contribute to mitigate risks of social unrest associated with these investments.

32. **Firms with potential to benefit from consumption linkages will receive business development services and finance.** The capacity building includes a first common training on soft skills and personal initiative to change the mindset, as well as business and management practices. Other type of training will be identified as needed. The second stage trainings will then analyze the needs of the firms, which would require some higher threshold on firm capabilities and orientation to grow. Firms will then be able to apply for a grant on a competitive way in support to their access to market activities.

33. **In addition, the project will support small scale entrepreneurship in the targeted areas of focus**. Civil society organizations (CSOs) will play a critical role in working with small-scale entrepreneurs and improving their capacity to expand small businesses and access financial services. The subcomponent will also support expanding women's agency through participatory mechanisms. Through a graduation approach,[39] small businesses and especially women, will be

[37] Firm selection mechanisms will be defined in consultation with extractives' operators and private sector development stakeholders.
[38] See CPSD (forthcoming) for extensive analysis of supply and demand on economic linkages to extractives.
[39] First experimented in Bangladesh, the graduation approach aims to move people out of extreme poverty. Since then, several impact assessments have shown the effectiveness of the model.

supported through initial capital investment, coaching, and peer-to-peer advisory in income-generating activities. In parallel, businesswomen will be assisted in efforts to reduce the risks of harassment.

Sub-component 1.2: Infrastructure

34. **The project will implement needed last mile infrastructure to improve opportunities for linkages and wider economic development in the targeted areas**. The objective is to improve connection to productive economic opportunities through easing accessibility and other infrastructure. This is especially important in the context of a growing population[40] in the targeted regions, as well as the increased private investment. This sub-component will focus on the application of MFD principles in its development and implementation and for its sustainability after the project.

35. **Priority will be given to viable sub-projects that attract or complement investments from the private sector to improve urban or peri-urban infrastructure that is economically, environmentally, and socially sustainable.** The identification of sub-projects will combine a proactive and demand-driven approach to identify gaps. The identification process will follow a transparent and consultative process including with the involvement of local and regional authorities, the extractive companies, and local operating businesses. The importance of the sub-projects for the response to COVID-19 and recent natural disasters will also be a critical consideration in the selection process. Joint investments with the extractive companies will be pursued in the component.

36. **The selection process will include assessments to ensure the infrastructure upgrading targets high impact generating private investment**. The project will support upgrading small roads, water supply, electricity, communications, sites-and-services, and depending on environmental and social impacts, on waste management. Implications on social and environmental safeguards will be critical for deciding which sub-projects to support both from an impact and a mitigation perspective. Opportunities can include both specified infrastructure and if deemed applicable support to territorial development including Special Economic Zones (SEZs).

Subcomponent 1.3: Regional development capacity to maximize impact

37. **This sub-component aims to increase the regional development agencies' capacity to promote linkages and help implement/develop further spatial planning investments**. The subcomponent will expand the capacity of provincial governments, development agencies including ADVZ and the recently created ADIN, and districts, in identifying priorities, and coordinating, implementing, and monitoring programs that pursue linkages and regional development. It will also conduct preparatory territorial frameworks, including to support spatial plans, as well as support other investments that are important for the areas of the project. This can also include support studies in preparation to new government projects.

Component 2: Enabling linkages through national level's market access, coordination and reforms

38. **This component seeks to enhance national market access, reforms and capacity to leverage further diversifying investment**.[41] It aims to support markets and finance platforms to help generate linkages across sectors and locations. It includes the design, implementation, monitoring, and information sharing of appropriate policies to maximize benefits

[40] By some accounts, the Palma district is expected to grow in population to over 100,000 people in the next three years. Moatize district has reached over 400,000 people.

[41] In addition to the areas of support under the project, it is very important to continuously improve transparency and management of government resources from gas projects, as well as work on other initiatives that can improve the direct impacts of the extractives. These are expected to be covered by other work outside the project under MIREME and Macro-Fiscal technical assistance.

from investment, including policies for more conducive business environment. A key objective of this component is to improve the government's capacity at the national level to plan and coordinate and to respond to the emerging needs. To do so effectively, this component will facilitate ongoing and upcoming initiatives to develop regular stakeholder engagement and capacity support for stakeholder coordination committees.

Sub-component 2.1: Digital platforms to connect to markets

39. The subcomponent will support the development of a centralized database of local suppliers and procurement opportunities to bridge information asymmetries. The project will leverage on ongoing efforts to develop an integrated database where all companies potentially able to supply to the extractives sector can register and access information on procurement. In addition, the project will introduce tools for market assessment of the quality and products needed, and to understand the needs of the buyers, procurement processes, and requirements, through online tools and webinars, network and other in person events.

40. The subcomponent will support an MSME Finance Platform that would offer services as part of the efforts to increase access to finance in Mozambique. The digital platform will provide access to complementary financial and associated services to achieve economies of scale, improve credit risk assessments, introduce innovation and facilitate MSMEs' access to financial services. In addition, the platform could be used to offer or link to other existing non-financial services to MSMEs.

Subcomponent 2.2: Physical platforms of reforms, coordination and capacity building

41. **This subcomponent will support (i) investment policy reforms, (ii) coordination between stakeholders and (iii) capacity building in national agencies.** Critical business reforms - along with component 1's firm-level support - can produce a catalyst effect on inclusive economic development. The reforms[42] may include helping revising the 1993 Investment Law and aligning it with international investment policy commitments. The project will also be a critical instrument to support other business climate regulatory improvements if the opportunities arise (e.g. labor law). The subcomponent will also support mechanisms to help investors navigate regulations and procedures, and address grievances. This includes to support ongoing efforts for an online portal with relevant information for investors, facilitation mechanisms to inform businesses about (labor) regulations and navigate the business environment processes,[43] and help establish an investment ombudsman.

42. **This subcomponent will foster integrated governance of linkage development programs for coordinated results.** The project will pursue a constructive discussion on local content that can lead to a clear process forward. The discussion needs to involve different actors including investors, associations of MSMEs and the broader private sector, as well as various government institutions. The project will support coordinated governance by leveraging initial attempts by stakeholders (i.e. Multi-Stakeholder Platform, MIREME's Local Content Task Force) to create dialogue arrangements. This coordination will help map the various projects and programs in place in the regions impacted by extractives, as well as identify gaps that require mobilizing other efforts. The coordination will be in the areas of skills development, local content, SME finance, and spatial development.

[42] The alternatives are discussed under the forthcoming World Bank Group's Mozambique 2020 Country Private Sector Diagnostic.

[43] In addition, the project will consider support reforms in the public procurement opportunities for MSMEs. Beyond the contracts in extractives, which in the absence of new operations are time-limited by the 5-6 year construction phase, the main opportunity for local markets is in public procurement including government projects and SOEs. The project would focus on increased transparency in bidding processes, improvement in procurement systems in pilot agencies, and trainings to MSMEs in better identifying the opportunities and using them to their needs.

43. **On national level capacity, the project will assist the government in efforts to achieve results in terms of economic linkages for diversification.** It will likely support APIEX, the investment promotion agency, to fulfill its mandate and focus on service delivery to facilitate investments. The support may include to leverage and expand on the ongoing efforts to support local content development under MIREME. In addition, the project will provide technical support to the National Quality Infrastructure (NQI) providers notably INNOQ to expand the number of quality certifications provided in country.

Component 3: Project Management

44. **The component will provide the necessary technical, advisory, and financial support for the adequate implementation, management, and coordination of project activities.** This component will also include activities to ensure that monitoring and evaluation systems for project and sector-wide analysis are upgraded and sustained. Finally, it will include the support to the design and monitoring of safeguards issues related to project implementation, and a robust citizen engagement and communications program for project and social inclusiveness.

45. **The project will be managed through a Project Implementation Unit (PIU).** The PIU will be under the auspices of MEF. The PIU will have regional presence in the areas of focus of the project. Regional development agencies, MIC, subnational governments, and sectorial ministries will be key implementing counterparts. Project management, project operating costs, including external audits, equipment, operational systems, consultants' compensation, M&E activities, grievance FSME mechanism (GRM), training, and related TA activities will be supported under this component.

46. **Communications, citizen engagement, and stakeholder coordination activities during the project will also be financed by this subcomponent and managed by the PIU.** These will include (i) the development of a comprehensive communication strategy for each project target area as well as the preparation of all communication materials and, where appropriate, the organization of awareness raising events; (ii) the coordination of stakeholder involvement in project activities; and (iii) the implementation of a citizen engagement plan and feedback mechanism to inform project implementation.

47. **This component will fund the collection of project data, gender analysis, and SME and sector-based surveys will be undertaken to assess progress against project indicators, as needed.** If possible, the project will also finance an impact evaluation of the SME and entrepreneurship support activities to better measure impact of these initiatives. All activities and data collection will be gender disaggregated.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

48. **The proposed environmental risk rating is Substantial**. Project Investments are likely to cause environmental and social impacts arising from the proposed entrepreneurship support activities in various sectors and infrastructure development. Anticipated risks and impacts are expected to lead to (i) soil erosion and degradation and increased use of agro-chemicals due to agricultural activities; (ii) disposal and management of waste during the construction phase, (iii) occupational health and safety of workers, (iv) nuisances related to air and noise emissions, and (v) community health and

safety due to increased traffic. The project may cumulatively generate significant use of water or other raw materials or to generate significant GHG emissions. However, such implications will be further assessed during project preparation.

49. **The proposed social risk rating is Substantial**. The last mile infrastructure is likely to require some land parcels, although the extent of land required is not expected to be extensive. While no large-scale resettlement is foreseen, impacts on livelihoods are expected. The risk of Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) during project implementation is present in training activities, infrastructure works, as well as entrepreneurship interventions. Further, health risks due to COVID-19 pandemic are expected in crowded situations during civil works and will be mitigated with health and safety protection measures, including social distancing or physical distancing at construction sites. Labor influx pose another social risk for the project as it will rely on both unskilled labor and technical expertise in providing advisory services to firms and in small infrastructure works. In particular, manual labor required for works (even if drawn from local areas) can have the risk of including child labor or working conditions not in line with Mozambican laws and the Bank's Environmental and Social Framework (ESF). There will be a need to ensure that working conditions are aligned with legal provisions and ESF requirements on labor. Low capacity for assessment, planning and implementing measures on social risk mitigation as well as the insecure situation in Cabo Delgado mean that the social risk is Substantial.

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