



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: Sep 27, 2018 | Report No: 130699



BASIC INFORMATION

A. Basic Project Data

Country Mozambique	Project ID P163989	Parent Project ID (if any)	Project Name Mozambique National Urban Development and Decentralization Project (P163989)
Region AFRICA	Estimated Appraisal Date Sep 12, 2018	Estimated Board Date Mar 15, 2019	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Economy and Finance	Implementing Agency Ministry of State Administration and Public Service, Ministry of Public Works, Housing, and Water Resources, Ministry of Land, Environment, and Rural Development	

Proposed Development Objective(s)

To improve service delivery in selected municipalities and districts and improve institutional capacity for decentralization

PROJECT FINANCING DATA (US\$ 100 Million)

Environmental Assessment Category B - Partial Assessment	Concept Review Decision Track I-The review did not authorize the preparation to continue
Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed) YES	

Other Decision (as needed)



B. Introduction and Context

Country Context

- Mozambique has experienced significant economic and social development over the past two decades, but important challenges remain.** With the end of a devastating 15-year civil war in 1992, and the implementation of political and economic reforms, GDP per capita growth has been strong, averaging 4.1% annually (1990-2016). Robust growth was made possible by sound macroeconomic management, several large-scale foreign-investment projects in the extractives sector, political stability and significant donor support. However, low commodity prices, climate shocks, and the revelation of previously undisclosed state debts in 2015-2016 led to a sharp decline in GDP growth, strong depreciation of the currency, and heightened levels of inflation. Looking four to five years ahead, planned investments in natural resource extraction should increase public revenues, and accelerate GDP growth again. Yet, capital-intensive megaprojects could also accentuate non-inclusive growth trends. Hence, the challenge will be to maintain macroeconomic stability, while also pursuing economic diversification for inclusive growth through sectors such as agriculture.
- Rapid growth has also not translated into significant poverty reduction in recent years.** While strong economic growth led to a 16-percentage point decline in the national poverty headcount between 1997 and 2003, the pace has slowed considerably since then. Whereas the bottom half was the only group that recorded positive consumption growth in the period 2002-2008, the upper half experienced the largest growth in 2008-2014. Growth has become less inclusive, particularly in urban areas. 43.2% of Mozambicans live in chronic poverty.
- Poverty is concentrated in the rural areas (80% of the poor) and in the central and northern regions, and these regional disparities explain the varying responsiveness of poverty reduction to growth.** Between 2003 and 2008, poverty rates dropped in the less poor southern region and in urban centers. However, they increased in Zambezia, Sofala, Manica, and Gaza. Niassa, Nampula, Zambezia and Gaza are the provinces with the highest official poverty rates.
- Mozambique's political landscape bears the scars from the 16-year civil war that followed independence from Portugal.** The Front for the Liberation of Mozambique (Frelimo) and the Mozambican National Resistance (Renamo) are still the main political forces in the country, followed by the Mozambique Democratic Movement (MDM). Politics between the main parties becomes confrontational from time to time as stakes for control of political power and resources are high in the country, and even led to renewed violence in 2014-15.
- An incomplete post-civil war political settlement is at the heart of the tensions between the former warring parties.** The widespread perception of centralization of both political and economic power in the hands of Frelimo elites and supporters has contributed to feelings of marginalization and grievance felt by Renamo elites and its supporters. Linkages between politicians in the ruling party and private companies has created a sense that political connections confer positions of privilege in the private sector which are not available to the opposition. Meanwhile regional disparities in public expenditure and development outcomes reinforce a sense of marginalization by the central government of Renamo-dominated areas. This has bolstered Renamo's calls for decentralization of political and economic authority.
- The recent debt crisis has highlighted the depth and criticality of the governance challenges facing Mozambique.** Governance indicators for Mozambique, including the World Bank Country Policy and Institutional Assessments (CPIA), reflect a gradual decline of government effectiveness, control of corruption, the rule of law and voice and accountability over the past several years. The debt crisis has surfaced many very concrete governance



challenges, namely around public investment management, debt management and insufficient oversight mechanisms for state-owned enterprises (SOEs). This has also generated a more general crisis of confidence in the government's fiduciary capacity and its ability to responsibly manage natural resource revenues. Perceptions of corruption within the public service are given credence by civil society organizations, which have voiced concerns with regards to the absence of sufficient public accountability in the use of state revenues. To date, IMF has not resumed its program in Mozambique, and the country is now classified as "fragile" by the World Bank

7. **A relatively fragile political system and disputes over the control of resources continue to pose governance challenges.** Recent armed attacks on local public offices and communities in the oil and gas-rich northern province of Cabo Delgado, the murder of politicians (the most recent example being the reformist mayor of Nampula, the fourth largest city in the country) and journalists reflect the country's fragility. Upcoming elections (municipal in 2018, general in 2019) could expose even further political tensions, which have been compounded by the country's changing political economy with the discovery of significant gas reserves, raising expectations of a windfall, and amplified competition between the rival factions.

8. **The recent unanimous parliamentary approval of a constitutional reform on decentralization is an important milestone in Mozambique's efforts to ensure national political stability.** The leaders of the two main political parties (FRELIMO and RENAMO) recently achieved a historic agreement to end years of hostilities and arm conflicts through decentralization reforms and demobilization. In May 24, 2018 the National Assembly unanimously agreed to change the Constitution, and laws to provide greater political, administrative, and fiscal autonomy to Province and District governments. The constitutional amendments provide for elected assemblies at provincial, district and municipal levels. The head of the list (party, coalition or citizens list) for the assembly at each level who obtains the most votes will become the governor, district administrator or mayor. The new constitution is expected to be applied to the provinces from the October 2019 election, municipalities from the October 2018 election, and district in 2024.

9. **A new institutional and legal framework for decentralization will be required after the constitutional amendment that will introduce decentralization's reforms.** This will be needed to clarify the respective powers of the decentralized bodies, the articulation between the central state and the decentralized bodies, and the articulation between the various types of local governments (provinces, districts and municipalities).

Sectoral and Institutional Context

A country still relatively centralized undergoing changes

10. **The recent constitutional change will broaden decentralization, currently limited to 53 municipalities.** Decentralization reforms initiated in 1997 favored a gradual approach and only created a limited number of Municipalities (currently 53, in larger urban areas) and Local Organs of the State (Provinces and Districts, known as Órgãos Locais do Estado – OLEs, deconcentrated entities). Municipalities have fiscal and administrative autonomy, and their leadership is democratically elected. Provinces and districts, as well as sub-district levels (administrative posts and localities) have no fiscal or administrative autonomy, and serve as extensions of the central state.

11. **The 2012 Decentralization Policy and Strategy (*Política e Estratégia Nacional de Descentralização – PEND*), followed by the Decentralization Policy and Strategy Implementation Plan (PIPED, 2016-2019) laid out an incremental vision for decentralization.**



12. **With the recent constitutional change, the country is taking a step forward towards political decentralization, with direct elections of both provincial and districts heads.** How this will affect functional responsibilities and financial flows remains to be seen. Translating broad principles into a revised legal and regulatory framework and supporting smooth implementation will be the focus of the administration; although this creates some uncertainties for the project, it is first and foremost an opportunity to support the GoM in implementing these changes, starting with key policy issues around respective mandates of various levels of government and resource-sharing.

13. **To date, there are numerous challenges to the implementation of the decentralization reform.** Decentralization implementation has been slow and, by some account, the impact on service delivery has been marginal.¹ Approximately 63 percent of all spending remains at the central level, compared with 35 percent at the deconcentrated level, and the small remainder at the municipal level.

14. **Both functional responsibilities and revenue sharing are unclear and piecemeal, capacity at the local level is limited, and accountability mechanisms often superficial.** Functional segregation remains unclear – see table 1. Significant capacity limitations of local public administrations are exacerbated by imbalances in workforce composition and poor implementation of the system to monitor civil servants’ performance. Capacity gaps in municipalities create missed opportunities for revenue generation, service delivery, territorial planning, and land management. Internal and external controls of public expenditure are weak at decentralized levels, and mechanisms for public participation and accountability are often superficial.

TABLE 1. DIVISION OF SERVICE RESPONSIBILITIES AND AUTHORITIES AMONG LEVELS OF GOVERNMENT AND PRIVATE SECTOR

Public Service	Policy and Supervision	Implementation and Provision
Education	CG	CG, P, D, M
Health	CG	CG, P, D, M
Transportation and communications	CG	CG, D, M
Infrastructure	CG	CG, P, D, M
Basic Sanitation	CG	P, D, M
Energy	CG	SEE
Water Supply	CG	P, D, M, SEE, PS
Culture, leisure time and sports	CG	CG, P, D, M
Social action	CG	CG, P, D, M
Environment management	CG	CG, P, D, M

Source: Law 8/2003 and Law n° 1/2008.

CG – Central Government; P – Provincial Government; D – District; M – Municipality, SEE – business owned by State; PS – private sector

Source: USAID 2010.

15. **Recent reports and assessments, including the study on Horizontal Fiscal Transfers completed in parallel to this Project preparation, have identified significant shortcomings to the existing methods of providing financial assistance to municipalities and districts.** There is no systemic approach to intergovernmental fiscal arrangements, with the current procedures being a mixture of conscious government policy decisions and what appear to be ad hoc decisions arrived at to overcome specific problems. Objectives are not always clear and the methods of achieving those objectives are not always known by government agencies other than the one managing the process. Intergovernmental fiscal transfers and allocations overall are not need-based and fall short of promoting equity.

¹ World Bank, 2014. “Project Performance Assessment Report. Public Sector Reform Project”



Furthermore, the current system does not provide transparency in allocation decisions. It is undermining both budgetary predictability and the confidence of funds recipients.

16. **For municipal transfers, the overall envelope for FCA and FIIA is mostly complied with in the budget, but with a degree of discretion in allocations during the fiscal year.** For FCA and FIIA, both budget and actual allocations differ from amounts based on formula calculation (based on poverty levels and territorial area). At provincial level, Municipalities in some provinces get significantly and consistently less for both transfers (Zambezia, Maputo province), and some more (Manica, Sofala, Gaza). The number of municipalities has increased over time, but this has not resulted in the new municipalities receiving PERPU rather than FDD grants. The ‘system’ has simply not kept up with the reality of new structures of government. Municipalities also receive roads grants which, as elsewhere, do not match the formula-driven expectations and allocations are changed after the budget has been delivered. There are also grants-in-aid given to some municipalities by way of busses purchased centrally and given to municipalities, this scheme is almost totally non-transparent.

17. **For the discretionary allocations to districts, the total allocation for both the FDD and the FID is defined during the budgeting process, without any set guidelines for total allocations for the programs.** The FDD and FID, combined, accounted for only 9.8 percent of total district-level expenditures in 2015. They were, however, a much higher proportion of discretionary expenditure at that level and also amount to nearly all capital spending at the district level, including that controlled by Directorates of the central Ministries. Total allocations for both the FDD and FID increased steadily in recent years (although execution rates dropped sharply in 2016). Since 2013, FID allocations have also increased at a fixed rate of 2 percent annually, consistent across all districts, suggesting that the allocation criteria are not regularly updated with new data – if the formula are used. There is an annual budget allocation of roads funding for districts, but the final pattern of expenditure holds no relationship to the initial budget allocations. Actual expenditure is managed by the provincial and central offices of the national roads administration to see that as much as possible of the budget allocation is spent, no matter where the funded projects might be located.

18. **In most unitary decentralized countries in Africa, and particularly outside large urban centers, intergovernmental fiscal transfers represent the largest share of local government resources.** It is therefore fundamental to support GoM in designing and implementing a system that will promote equity in a transparent, rule-based manner. Municipalities capacity to collect own source revenues varies greatly, as does their capacity to attract donor funding.

19. **Considering the technical and political challenges associated with the reform of the system, the study on Horizontal Fiscal Transfers reviewed existing transfers and allocations and proposed ways to reform them to align them more closely with their stated objectives and provided insights into the calculation of a needs-based distribution for specific services.** The proposed mentoring of Mozambican agencies by similar functionaries in South Africa, where the processes are much more developed and systematic, is expected to assist greatly in managing fiscal decentralization in Mozambique.

20. **Mozambique has developed the rules and policies to enable systematic budget planning and reporting processes.** For both municipalities and districts, there are guidelines for budget planning, proper documentation of budgets, as well as requirements for public disclosure of budgets. In practice, however, the planning process is complex and ineffective. Territorial planning done at the district level remains disconnected from planning done centrally and sectorally. There is limited sectoral input in deconcentrated budgets, since local governments and line ministries are required to submit proposals at the same time. Thus, the determined budget allocations by sector and to districts do not necessarily correspond to district level planning, the PESOD. The e-SISTAFE allows for the



production of automated budget reports but this does not apply to Municipalities Budgets. As a result of these difficulties, neither municipalities nor districts score high on budget transparency.

Mozambique has not yet maximized the benefits of urbanization

21. **Urbanization in Mozambique has been accelerating and is playing an increasingly important role in the economic growth and in poverty reduction.** Mozambique's cities form the economic core of the national economy. Today, its 23 largest cities generate approximately 51.4 percent of the national GDP, and average per capita consumption in cities is more than triple the rural average (\$1,160 versus \$336)². Since the introduction of the 1990s political and economic reforms, urban development has contributed to poverty reduction in a significant way. City growth has been associated with a 16-percentage point decline in the national poverty headcount between 1997 and 2003.³ The poverty headcount rate is significantly lower in urban areas than in the rest of the country. For instance, in 2012, the poverty headcount rate for cities was 21.5 percent, compared with 37.7 percent in towns and 46.2 percent in rural areas. Urban growth continues to rapidly unfold in Mozambique with increasing concentration of people and economic activity in urban areas. In the next 25 years, the urban population is expected to more than double, adding more than 11 million people to cities. Improving the competitiveness and efficiency of Mozambique's cities is critical to derive greater agglomeration benefits that can enhance trade linkages with neighboring regional markets.

22. **Cities in Mozambique are rapidly expanding yet there is a big service delivery gap.** Because of a "gradual" policy towards decentralization, currently, only the largest urban areas are decentralized "municipalities", with 53 municipalities benefiting from some degree of autonomy and elected mayors. Fast urban growth that followed the end of the civil war put pressure on elected *municipal presidents* (mayors) and councilors to address the large urban infrastructure deficit and new investment needs of the growing urban population and emerging economic activities. With an average of U\$ 8 per capita for capital investments, municipalities are barely able to maintain the urban infrastructure built during colonial times. As a result, basic infrastructure and services are limited outside district headquarters and in informal neighborhoods and peri-urban areas. Lack of investments in infrastructure not only has severe negative impacts on the welfare of citizens, but also leads to high living costs that firms have to compensate in the form of higher wages, which makes Mozambique's cities less competitive internationally and undermines agglomeration benefits of urbanization.

23. **Outside the capital, Maputo, and main urban centers, basic infrastructure and services are not meeting expectations.** It is estimated that 70% of the urban population lives in informal areas, in squalid constructs, without formal land tenure, and with limited access to basic infrastructure and services.

24. **Inadequate roads and drainage.** Road infrastructure is poor. Only a quarter of all classified roads in the country are paved (7,344 km out of 30,464 km) and most unclassified roads are heavily damaged by erosion and often impassable due to rainfall and poor maintenance. The drainage network has not expanded much beyond what remained from the Portuguese colonial period. With an increase in the intensity and frequency of heavy rains due to climate change, severe flooding and erosion are common, and limits access to water, markets, secondary schools and health centers for low-income communities living in remote areas. While the Government has created a national Roads Fund, investments in urban transport is suboptimal as most municipalities have difficulty accessing these

² Source: World Bank, Mozambique Urbanization Review, 2017.

³ Mozambique Urbanization Review 2017.



funds, and when they do, they are insufficient to adequately maintain and rehabilitate roads in their respective jurisdictions.

25. **Poor sanitation and negative health outcomes.** 70% of the population (both urban and rural) has access to water, but coverage in some provinces, districts, and municipalities are much lower. For example, coverage of water supply in the province of Zambezia is 42.3% on average, but only 29% in Lichinga. At the district level, rural water allocations remain low and insufficient for districts to expand coverage of small water systems beyond the boundaries of district headquarter. In terms of sanitation, 80% of urban areas are covered while only 50% in rural areas. Outside core urban center, the main use of a sanitation facility changes from toilets connected to a septic tank to unimproved facilities.⁴

26. **Limited and unreliable solid waste collection.** Trash pickup services are generally not available beyond district headquarters or downtown areas of most cities, leaving most of the population residing in informal neighborhoods and peri-urban areas unserved. Revenues from tariffs are not sufficient to cover operating costs or new investments. In most municipalities, tariff collection is delegated to EDM⁵ the national electricity company, which charges a high administrative fee, and it is fully transparent about the numbers collected. Illegals dump sites are very common, even when municipalities designate an area, most fail to obtain the necessary environmental incenses and follow national regulations for controlled dump sites. This poses serious environmental and social problems to the workers, local communities, and citizens at large.

27. **Inadequate urban investments combined with weak territorial planning and land management capacity are major barriers toward effective, resilient, and feasible urban development, management, and upgrading.** Settlements in most municipalities in Mozambique are haphazardly developed without urban planning or sound infrastructure programming. Environmental degradation has accelerated in many cities due to unplanned development and poorly regulated land use, often including growth of low income residential settlements in vulnerable areas without associated infrastructure investments. The institutional and regulatory framework governing territorial planning and land use was designed to address mainly rural issues. At the same time, municipalities are legally responsible for territorial planning and land management which their spatial boundaries, and thus have received limited support from central government.

28. **As a result, municipalities have not been able to establish all the legally required territorial planning instruments (PEUM, PGU, PP), or to improve their land cadasters and expand land-based taxation.** Most municipalities do not have physical cadasters for land titles or established land valuation commissions (CAAPU). Acquiring or regularizing urban land is a tedious and costly process that involves as many as 103 steps over several years. It is estimated that less than 10 percent of urban land has definitive land use title (DUAT). The lack of a simple and straightforward land registration system prevents urban land markets from functioning well, creates obstacles to raising capital for development and investment, and expose the urban poor to distressed land sales.⁶ With limited land administration capacity, and a legislation that is not conducive to a well-functioning urban land market,

⁴ For instance, while about 80% of household have access to septic tank or sewage network in Maputo's central district, less than 40% of people living 5km of more have access.

⁵ This does not apply for districts and not for all municipalities. Only the bigger municipalities are using EDM to collect SWM tariffs

⁶ Although the formal and informal land market coexist, prices and profits from land transactions vary substantially. People who live in the *cidade cimento* acquire land mainly from formal developers or through formal land brokers. These developers and brokers acquire land through community leaders, or directly from poor households, and have the connections with the local authorities to formalize it. Through this process of 'distressed land sales,' land prices can increase significantly, but the profits remain with the developers and intermediates, not with the informal land seller.



municipalities are far from optimizing the existing land based taxation instruments, and thus limiting their capacity to finance infrastructure.

29. **Stagnant decentralization efforts and limited capacity of institutions at all levels of government further prevent the service delivery gap from being filled, especially in municipalities and districts.** During colonial time, most basic infrastructure and services delivery were managed by municipal entities, but with Independence and the nationalization policies, these entities were transformed into national agencies. While the Decentralization reforms initiated in the 1990's set as goal an incremental devolution of these functions to municipalities, the Government also created national entities to finance infrastructure investments and manage assets in transport (ANE), water (FIFAG), sanitation and drainage (AIAS and DNAAS). This concentrated resources and institutional capacity at national levels and created disincentives for municipalities to fulfil their new legal mandates in infrastructure and services delivery. As a result, the quality of infrastructure and services delivered under the responsibility of districts and municipalities are suboptimal, and inferior to those under the responsibility of the national government. More recently, the Government has introduced new legislations and regulations (ex. Decree12/2017) to support the decentralization of these responsibilities for managing infrastructure from these national agencies to districts, municipalities, or regional level. Some municipalities have recently created autonomous entities, or outsources to private sector (ex. SWM), or manage themselves. But still lots need to be done to ensuring broader basic infrastructure and services delivery access, quality of investments, and sustainability of these sub-national institutional models.

Shortcomings in institutional capacity at the local level

30. **Provinces are an important intermediary level, which will likely acquire a stronger role under the new decentralization reform.** Through election, the governors (currently appointed) will be subjected to electoral accountability. Provincial administrative structures currently replicate the central level, with separate "directorates" reporting both to their central ministries and the governor. Provinces have an important role in term of territorial development and monitoring of the implementation of sectoral policies. They also are being considered as a prospective "capacity hub" to assist both districts and municipalities⁷. They have a crucial role in allocating sectoral allocations at the district level.

31. **Provinces and districts currently have limited entitlement to an independent fiscal base and are reliant on annual allocations from central government.** Internally generated income constitutes just 2.5 percent of provincial revenue and 0.4 percent of district revenue (World Bank, 2014), and the vast majority of tax revenue is channeled to central levels – a normal situation in a unitary nation. Provinces receive the bulk of their financing through a non-sector specific grant for financing provincial and district-level expenditures. In principle, this transfer is allocated based on population size and poverty rates and designed to cover recurrent operational costs of the provincial and district offices (i.e. salaries and some goods and services), and occasional investments in infrastructure of other services at the discretion of the provincial governor. Sector-specific funding is channeled through line ministries and aligned with the national plan for the sector ministry (comprised of provincial and district departmental plans) and captured in the central financial management system (SISTAFE). Some of these rules may change with the new decentralization reform.

32. **Expenditures at the district level have increased in recent years as the government pursues deconcentration.** The largest increases in district resources are in earmarked sector spending, which is requested by district service spending units, and decided at the provincial level through the input of provincial governors in

⁷ CESO/MEF May 2017



negotiation with provincial directorates and central line ministries. District expenditures are largely deconcentrated recurrent expenditures, mainly salaries, with wide variations between the levels of deconcentration in each sector. The education sector has the largest degree of deconcentrated expenditures on salaries and recurrent spending, both in terms of the percentage of total education expenditures at the subnational levels (provincial and district), as well as the overall size of education expenditures relative to other sectors at the subnational level.

33. **Given the lack of institutional autonomy and a sizeable revenue base and investment funding at their disposal, the role of OLEs in service delivery remains limited.** The degree of deconcentration of functions and resources remains limited, with most of the deconcentrated spending used for personnel costs and the purchase of fuel, goods and services, i.e. recurrent budget items.

34. **Finally, although there are various forums for direct participation at local level (starting with the Local Councils), their composition, representativeness and capacity are generally considered low.**

35. **Despite this stated role of district as the basic planning unit,** there is a strong disconnect between the local development planning process at the district level (the Strategic Plan for District Development-PEDD and the annual District's Economic and Social Plan and Budget – PESOD) and central and provincial level planning and budgeting. Furthermore, some districts co-exist with decentralized municipalities, and weak coordination with municipalities creates significant issues for territorial development.

36. **Overall, districts do not have a strong role in delivering public services, despite their legal mandate to do so, because of their relative low technical capacity and the concentration of resources at the provincial level (through sectoral programs) or at national level.**

37. **Districts need support for core governance functions, as well as discretionary resources to maintain and build basic infrastructure for their population.**

Support to overall decentralization reform and regional targeting of Bank financing

38. **The Government's Decentralization Policy and Strategy Implementation Plan (PIPED, 2016-2019) aims to enhance the contributions of decentralization to equitable development and more efficient public-sector management.** To support this program, the Government has asked the World Bank to help design a National program for decentralization and urban development, in close coordination with other development partners. The intended impact is to strengthen the institutional capacity of local entities (decentralized municipalities and deconcentrated provinces and districts) and the implementation of decentralization (including fiscal transfers), to improve infrastructure and basic local services, and to promote participation and accountability. More broadly, supporting PIPED implementation will help ensure decentralization sustainably contributes to advance poverty and inequality reduction.

39. **In light of GoM's attention to an overall regional balance between the North, the Center and the South, this project's financing will be targeted to the poorest province in each of these regions (as per World Bank poverty assessment), namely, Niassa, Zambezia and Gaza. The districts of Sofala will also be included.**

Relationship to CPF

40. **The proposed program is in line with the Mozambique Country Partnership Framework (CPF) for FY17-21.** The CPF puts strong emphasis on urbanization and decentralization and identifies local governments and the



deconcentrated district administrative units' as the responsible entities for basic service delivery. However, the CPF identifies considerable technical support needed to ensure that these institutions have the capacity to deliver essential public services. The CPF also highlights that revenue assignments and intergovernmental fiscal transfers and allocations that are not need-based and lack equity and transparency, create significant disparities in the availability of resources at the sub-national levels.

41. **The Project is designed to support objective 10 of the CPF (Promoting Inclusive Urbanization and Decentralization) as well as objective 8 (Increased Accountability and Transparency of Government Institutions).** The CPF highlights the need to reinforce both rural and urban local entities and strengthen participation and accountability as a mean to ensure effective delivery of essential public services. The program will strengthen government systems to improve equity and transparency of fiscal transfers and allocations and increase institutional capacity of selected districts and municipalities to deliver basic infrastructure and services. The program will also provide technical support to key national entities responsible for the formulation and implementation of key aspects of decentralization policies and programs.

42. **The proposed project will support the Government's Decentralization Policy and Strategy (PED) and the operationalization of its Implementation Plan (PIPED). The GoM also requested a longer project implementation period so that this project financing can be better aligned to the new quinquennial plan (2020-2024).** In line with the various decentralization reforms and initiative to support deconcentrated and decentralized entities since the 1990's, the Government approved the PED in December 2013 to: (i) guide the government and other actors interventions particularly on citizens' participation, improvement of infrastructure and services, and promotion of local development; (ii) integrate and systematize the different processes which have been undertaken in decentralization; and (iii) lay out a way forward to achieve the vision and objectives for the decentralization process. Following the PED approval, and in accordance with the Government's 5th Quinquennial Plan, the Government formulated the PIPED 2016-2019 to serve as an implementation instrument to achieve the objectives of PED, define indicators and targets, clarify the responsibilities to implement the different actions, as well as monitor and evaluate the different interventions.

43. **In this respect, the proposed program will address the following strategic objectives of the PED:**

- Improve efficiency and effectiveness of service provision by districts and municipalities;
- Strengthen the capacity of actors involved in the process of decentralization (central and deconcentrated agencies, municipalities, communities and citizens)
- Promote the participation of citizens, communities and other actors in local governance.

C. Proposed Development Objective(s)

44. To improve service delivery in selected municipalities and districts and improve institutional capacity for decentralization.

45. PDO Level Indicators

- Progress on Intergovernmental fiscal transfers (*tbc depending on upcoming dialogue with GoM; options include: Transparent and timely transfers and allocations of resources to districts and municipalities, and possibly increased percentage of national fiscal revenues transferred to provinces and municipalities*)



- % of participating districts and municipalities achieving XX score or more on APA, Y1: 50%, Y2: 60% (TBD)
- Number of people in districts and municipalities with improved basic infrastructure and services under the project.

D. Concept Description

46. The proposed Project will have three components:

Component 1: Improved key decentralization policies and core public sector management systems for municipalities and districts (US\$10 million).

- **Component 1A: Improved Inter-Governmental Fiscal Transfer System and improved financial management at local level (US\$ 8 million).** The objectives of this sub-component are to support the design of a more transparent and equitable intergovernmental fiscal transfers systems (1a), as well as to support improved financial management and oversight of municipalities and districts (1b). Improved Inter-Governmental Fiscal Transfer System.
- **Component 1B: Support to overall leadership of decentralization reform by MAEFP and improved human resources management and participation at local level (US\$ 2 million for TA)**
- **The objectives of this sub-component are: i) to support MAEFP in leading decentralization reform, ii) to support human resources management at the local level, iii) to support citizen participation at the local level.** MAEFP will receive support to fulfill its mandate of coordinating and leading the decentralization reform process, as well as addressing key challenges, within its mandates, that are crucial for the performance and accountability of local entities, including improvement in rules governing citizen participation at local level and mobility issues.

Component 2: Improved the quality of basic infrastructure and services at local level (US\$14 million). The overall objective of this component is to strengthen the institutional capacity in the key areas relevant to the investments the project will make in local infrastructure and services under the responsibility of districts and municipalities. The component will finance TA and training on infrastructure planning, design, execution, O&M, territorial planning and land management, environmental and social safeguards.

- **Component 2A: Municipal and District Infrastructure (US\$ 9 million).** The objective of this sub-component is to improve the institutional capacity of municipalities and districts on key project management aspect from planning to execution and O&M. of possible investments in infrastructure and services. This includes local transport and accessibility, local water supply and sanitation systems, local markets and public spaces.
- **Component 2B: Improved territorial planning, land administration and environmental management at municipal level (US\$5 million).** The objective of this sub-component is to assist the Government's priority⁸ to improve territorial planning, land administration and environmental and social safeguards at municipal⁹ level.

Component 3. Improved performance of selected municipalities and districts to deliver basic

⁸ PQG 2015-2019 priority V: Ensure Sustainable and Transparent Natural Resources and the Environmental Management, objectives No. 59 and 60.

⁹ This component's activities on improving territorial planning and land administration will only target the municipalities as districts already receive support in this area through the Land Administration Project (P164551).



infrastructure and services through performance-based grants (US\$76 Million).

47. **The objectives of this component are to support selected municipalities and districts to improve their management and service delivery capabilities.** Selected municipalities and districts will be supported in meeting minimum conditions to access grants, that can be topped up with a performance-based component and will be used to finance local infrastructure and institutional development.

- **Component 3A: Performance-based Grants (US\$70 million).** The Project will provide 17 municipalities and 65 districts with grants labeled as Performance Grants (PGs) to support priority investments in infrastructure that have been identified and reflected in their participatory municipal and district investment plans. The municipalities and districts will be responsible for planning and implementing sub-projects financed with the Performance Grants, and grant funds will be reflected in the revenues and expenditures of their annual budgets.
- **Component 3B: Project Implementation Unit. A Program Management Unit has been established to manage the PNDUL preparation activities and future implementation.** The unit, located in the MAEFP, has the overall project management responsibilities, including project coordination, financial management, procurement, social and environmental safeguards, monitoring and evaluation. In addition, component managers and technical advisors under each component will also assist the PIU. This matrixial framework allows efficiency in overall project management functions across the components, while ensuring ownership in each agency, and sectoral expertise. The Appraisal PID/ISDS will specify the E&S personnel needed for the PIU.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

A. Project location and salient physical characteristics relevant to the safeguard analysis

Environmental Aspects

48. Mozambique comprises almost 800 thousand sq. km., with variable physiographic conditions, and is divided into two topographical regions: To the north of the Zambezi river, a narrow coastline and bordering plateau slope upward into hills and a series of rugged highlands punctuated by scattered mountains. South of the Zambezi River, the lowlands are much wider with scattered hills and mountains along its borders with South Africa, Swaziland and Zambia.

49. The Project involves institutional strengthening at national, provincial, district and municipal levels and investments in construction works and goods to improved basic infrastructure and services in selected municipalities and districts in four provinces (Gaza, Zambezia, Niassa and Sofala). While construction works will take place only in the participating municipalities and districts, technical assistance activities associated to components 1, 2 and 3 may involve a broader region. Consequently, it is necessary to consider the main environmental physiognomies of the entire country. In general, the likely environmental and social impacts are expected to be minor given the low mechanized road works that will be involved, the labor influx during construction will be small and the regulatory reforms under the land use plans TA will bring potential downstream social impacts that will be assessed and addressed in the specific SESAs of which the TORs will be annexed in the ESMF.



Social Aspects

50. Mozambique has a population of 28,861,863 - year 2017, with growth rate of 2.9% per year and life expectancy 58.3 years - year 2016. The national poverty rate is 46.1% in 2014 and GNI (Gross National Income) per capita is US \$ 480.00 in 2016.

51. Poverty is concentrated in the rural areas (80% of the poor) in the central and northern regions.

52. Between 2003 and 2008, poverty rates fell in the poorest southern region and in urban centers. However, they increased in Zambézia, Sofala, Manica and Gaza.

53. The PNDUL will cover 4 of the 10 Provinces that make up the country: Niassa, Zambézia, Sofala and Gaza and will have a significant capillarity as it will cover 64 Districts and 17 Municipalities.



54. The following table presents data from each of the Provinces.

Data obtained on the website of INE - Instituto Nacional de Estatística ¹⁰					Data from DEEF ¹¹	PNDUL will cover:	
Provinces	Region	Population date			Poverty rate (Not adjusted) (%)	Districts	Municipalities
		Provinces Region Population	% relative Population of the country (28.861.863)	Female Population (%)			
		Year 2017					
Niassa	Norte	1.865.976	6,47	51,40	60,6	15	5
Zambézia	Centro	5.110.787	17,71	52,60	56,5	22	6
Sofala	Centro	2.221.803	7,70	51,80	44,2	13	0
Gaza	Sul	1.446.654	5,01	53,90	51,2	14	5
TOTAL		10.645.220	36,88	52,18		64	16

55. Urbanization in Mozambique has been accelerating and playing an important role in economic growth and poverty reduction. Mozambique's cities are the economic core of the national economy.

56. Cities in Mozambique are rapidly expanding yet there is a big service delivery gap.

57. Inadequate urban investment, combined with weak territorial planning and land management capacity, are the main barriers to effective, resilient and viable urban development, management and improvement. Settlements in most municipalities in Mozambique are developed at random without urban planning or sound infrastructure programming. Environmental degradation has accelerated in many cities due to unplanned development and poorly regulated land use, often including the growth of low-income residential settlements in vulnerable areas without associated infrastructure investments.

58. The purpose of the PNDUL includes activities to improve institutional capacity of the Government of Mozambique to support its decentralization policies, and to improve the performance of selected municipalities and districts in the poorest provinces to deliver basic infrastructure and services.

B. Borrower's Institutional Capacity for Safeguard Policies

59. Mozambique has a well-developed environmental and social legislation, including the national environmental law, which defines that all public and private activities that may cause significant environmental impacts should be object proper environmental licensing, including environmental assessment studies to identify possible impacts, as

¹⁰ INE - Instituto Nacional de Estatística - <http://www.ine.gov.mz/operacoes-estatisticas/censos>

¹¹ DEEF - Direção de Estudos Económicos e Financeiros / Ministérios de Economia e Finanças www.mef.gov.mz



well management plans, aiming to minimize and mitigate the foreseen impacts. The Country also has legal requirements for public consultations, including public hearings with participation of the affected population to validate environmental and social impacts studies.

60. Additionally, the Government of Mozambique has experience in implementing Bank-financed projects, as well as projects funded by other donors that follow analogous safeguard policies. MAEFP will be the main implementing agency, but the program may involve many other entities, subordinated to the Ministry of Finance (MEF), Ministry of Public Works and Water Resources (MOPHRH), and Ministry of Land, Environment and Rural Development (MITADER).

61. MAEFP has experience in managing environmental and social safeguard aspects of projects with similar characteristics, (municipal performance Grants for small works), as it was in charge of the Cities and Climate Change Project, which also supported construction works in diverse municipalities. Most agencies subordinated to MOPHRH, such as ANE, AIAS, DNGRH, and DNAAS, have experience with Bank safeguard requirements, and are currently implementing projects funded by the Bank, with dedicated safeguard staff, often funded by the projects and hired specifically for the respective PIUs. The capacity and experience of the other entities involved in the project are variable. Overall, local entities are under-staffed for environmental and social management, demanding support for improving their environmental and social management systems. MITADER has a major role on the policy and institutional aspects of environmental and social safeguards. Moreover, the provincial departments of MITADER are responsible for processing environmental licenses (B and C), as well as oversight functions. Solid waste management is another sector under the responsibility of MITADER.

C. Environmental and Social Safeguards Specialists on the Team

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

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Project is classified as Category B, as the potential environmental and social impacts are expected to be limited in scope and localized. The project will finance basic infrastructure and services interventions (to be channeled through municipal and district performance grants) involving small civil works, such as construction of bridges, water supply systems, drainage and sanitation systems, pavement and restoration of local roads and pedestrian pathways, including some improvements in solid waste management and development of sanitation master plans. Such activities, will largely contribute to positive outcomes, such as reducing the prevalence of unhygienic environmental conditions in urban areas. Nevertheless, these works may also



generate adverse environmental and social impacts, particularly during constructions, such as soil disturbance, nuisance through dust emissions, noise, vibrations, waste generation and health and safety risks to communities and workers. Consequently, OP/BP 4.01 is triggered, and the borrower will prepare an Environmental and Social Management Framework (ESMF). The ESMF will include: (i) procedures for screening and excluding any intervention that could cause significant social or environmental impacts, (ii) the proper environmental and social management guidelines for the construction works and (iii) terms of reference for the technical assistance activities. The ESMF will contain provisions related to social impacts other than those related to land acquisition, including: (i) stakeholder engagement; (ii) gender sensitivity; (iii) non-discrimination and equitable treatment of vulnerable groups including universal access in local infrastructure to the extent possible; (iv) community and worker health and safety including contractors' code of conduct; (v) access to grievance redress mechanisms and (vi) The Draft TORs for the SESA to be included in land use/management TA.

The project will also finance TA activities aimed at strengthening the capacity of municipal and district governments to deliver basic infrastructure and services, and the capacity of national government to promote decentralization reforms. In particular, TA will be provided to help municipalities in improving territorial planning and modernizing land management instruments. Such TA activities may generate downstream environmental and social implications that could be classified as Type 3 TA activities. The areas of direct intervention of the subprojects, as well the precise scope of the TA activities, have not been fully defined yet. As such, an Environmental and Social Management Framework and of a Resettlement Policy Framework are the proper environmental and social safeguards instruments. The implantation of TA activities, particularly for the formulation of territorial planning and land



			<p>management instruments will include the preparation of a SESA or other preliminary environmental and social analysis defined once the full scope of each TA is determined. The TORs for the SESA component of the TAs will be annexed in the ESMF. that the ESMF will be publicly disclosed and cleared prior to appraisal.</p>
Performance Standards for Private Sector Activities OP/BP 4.03	No		<p>This policy would not be triggered, as the proposed project does not include Bank financing for private sector activities. The responsibilities for identifying, assessing and managing environmental and social risks and impacts will be fully owned and operate by the public sector.</p>
Natural Habitats OP/BP 4.04	Yes		<p>OP/BP 4.04 on Natural Habitats is triggered, because the Project would encompass diverse infrastructure construction works that may interfere with natural habitats. Additionally, land planning activities may indirectly have effects on the conservation and management of natural habitats.</p> <p>No significant conversion or degradation of critical natural habitats are expected (and will be screened out), and the Mozambican Legislation has proper instruments to license any activity that could result in the conversion or degradation of natural habitats. The ESMF will include clear guidance for screening of sub-projects and TA activities that could cause direct and indirect impacts on natural vegetation and habitats.</p>
Forests OP/BP 4.36	No		<p>This policy is not triggered, as proposed project investments will not involve or affect forests as defined under this policy. The ESMF will include procedures to screen out activities that could potentially cause adverse impacts on forests.</p>
Pest Management OP 4.09	No		<p>This policy is not triggered because the proposed Project will not support the purchase or increased use of pesticides and other agricultural chemicals as defined under the policy. The proposed Project will not include any support for agricultural land use which would promote pest management.</p>
Physical Cultural Resources OP/BP 4.11	Yes		<p>This policy is preventively triggered as there is no indication, so far, that the Project activities may interfere with known physical cultural resources. However, some civil works may involve earth movements and excavations that may result in</p>



		<p>interference with historical and/or paleontological sites. Hence, the ESMF will include "Chance Finds Procedures to address potential impacts on physical cultural resources.</p>
Indigenous Peoples OP/BP 4.10	No	<p>OP/BP 4.10 Indigenous Peoples would not be triggered because there are no groups in Mozambique that meet the policy definition of "Indigenous Peoples."</p>
Involuntary Resettlement OP/BP 4.12	Yes	<p>OP/BP 4.12 would be triggered.</p> <p>The component of the Program that may cause social impacts related to resettlement and livelihoods is the performance-based grants (Component 3).</p> <p>Component 3 has potential direct impacts since it provides funds for the improvement of basic infrastructure and services at the district and municipal levels.</p> <p>The Project could transfer resources directly to municipalities and districts to invest in some areas in infrastructure and basic services - such as: construction or rehabilitation of access roads, drainage ditches, community sewage collection systems, small water supply systems, water, municipal and district markets, as well as the acquisition of equipment necessary for the maintenance of solid waste management (containers, solid waste transport trucks, etc.).</p> <p>Component 2B provides support for strengthening the capacity of MITADER at national and provincial levels on municipal territorial planning, municipal environmental management, municipal land cadaster, which may have social and environmental implications, leading to future social and environmental risks and impacts. TA for these activities needs to include provisions to ensure that the respective products are consistent with OP 4.12.</p> <p>The Program at this time has not yet defined its scope of works / interventions to be carried out, but the design and eligibility criteria will ensure that they will be small infrastructure and services interventions..</p> <p>As the specific works to be supported by the proposed operation will only be identified during</p>



		<p>implementation (each year participating municipalities and districts will submit proposed lists of works to be funded through the annual performance grants), potential adverse impacts related to involuntary resettlement can not be fully assessed before project approval. As such, the Government is preparing the Resettlement Policy Framework (RPF) that will identify the types of potential resettlement and livelihood impacts and establish the mitigation measures required for the main types of interventions that can be funded under the Program.</p> <p>For each future intervention to be undertaken involving involuntary resettlement or economic displacement, a Resettlement Action Plan (RAP). Abbreviated RAP (ARAP) or Compensation Plan (CP) will be prepared together with the engineering projects during the implementation phase of the Program, with due consultation of affected families and communities. Each prepared RAP/ARAP/CP will be sent to the Bank for review and approval before the associated civil works contract is signed.The RPF will include the institutional arrangements and budget provisions needed for its implementation.</p> <p>TA activities for institutional strengthening or land use planning will include provisions for consistency with OP 4.12 where applicable.</p>
Safety of Dams OP/BP 4.37	No	The proposed project investments are not expected to support physical works in relation to small or large dams, nor do any project investments that rely on the operation of an existing dams or dams under construction. Hence, the ESMF will include screening procedures to exclude activities that could potentially rely on existing or future dams.
Projects on International Waterways OP/BP 7.50	No	Proposed project investments are not expected to have any impacts or utilize water bodies that are classified as International Waterways (under this policy).
Projects in Disputed Areas OP/BP 7.60	No	Not applicable, because the activities financed by the Project would not be located in disputed areas.



E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 15, 2018

Since the locations and impacts of the potential construction and maintenance of small scale urban infrastructures cannot be clearly defined at this stage, the borrower is preparing an Environmental and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF). The preparation of the ESMF and RPF will involve extensive stakeholders' consultation and participation. In addition to providing a set of implementable mitigation measures as part of the requirements for Environmental and Social Management Plans (ESMP) and Resettlement Plans (RAP), Abbreviated Resettlement Plans (ARAP) or Compensation Plans (CP), the ESMF and RPF will provide social and environmental screening procedures along with an environmental and social check-list to be applied on each proposed subproject, as well as a set of environmental and social clauses (ESC) to be included in the bidding documents as well as in the Contractors' and supervisors' Contracts. Moreover, the ESMF and the RPF will contain institutional arrangements, roles and responsibilities, a monitoring and evaluation mechanism, a conflict resolution/grievance redress mechanism (GRM), as well an estimated budget to allow for the effective implementation of the ESMF/ESMPs and RPF/RAP-ARAP-CP and the GRM. The ESMF and RPF documents will be reviewed by project safeguards specialists and submitted to the World Bank for review. Once approved by the Bank, they will be disclosed publicly both in-country in the Bank's website prior to project appraisal.

Additionally, all proposed TA activities that will finance land use plans and regulatory reforms, or studies for land use or territorial planning, will include in the respective TOR the preparation of a SESA. All TA TORs will be subject to review by Bank safeguard specialists to ensure that safeguards considerations are adequately integrated in all TA activities. A draft scope of SESA TORs (including consultation requirements) will be annexed in the ESMF and further detailed once the scope of each TA activity (particularly with respect to land use planning and regulatory reforms) is identified.

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APPROVAL

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