



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jun-2020 | Report No: PIDC29699



BASIC INFORMATION

A. Basic Project Data

Country Mozambique	Project ID P174152	Project Name Mozambique Covid19 Response DPO (P174152)	Parent Project ID (if any)
Region AFRICA EAST	Estimated Board Date Aug 24, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economy of Finance	Implementing Agency Ministry of Economy and Finance		

Proposed Development Objective(s)

The objectives of the proposed operation are to (i) mitigate the impact on lives and livelihoods by supporting the immediate Covid-19 response, and (ii) support reforms that will aid the recovery and enhance fiscal sustainability.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
------------------------	--------

DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

This program document proposes an SDR [XX] million (US\$100 million equivalent) International Development Association grant to the Republic of Mozambique for a stand-alone COVID-19 Crisis Development Policy Operation. Mozambique, like many others, is facing a major health, livelihoods and economic crisis as a result of the Covid-19 pandemic. The Government of Mozambique instated a formal state of emergency on April 1 and is implementing a comprehensive program of Covid-19 response activities. The proposed operation supports the Government of Mozambique (GoM) in managing the impact of this crisis.



The COVID-19 outbreak reached Mozambique at a weak moment in its economic history as the country attempted to recover from major shocks and expected to have significant negative impacts on the economy and on livelihoods. The Covid-19 crisis will have a heavy impact on economic activity causing growth expectations to decline to 1.3 percent in 2020, down from a pre-Covid forecast of 4.3 percent, with significant downside risks. Mozambique is also expected to experience large external and fiscal financing gaps in 2020 and 2021 in a context characterized by exposure to external shocks and limited fiscal space. Moreover, a sizeable number of Mozambicans will fall back into poverty as a result of the pandemic, especially in urban and peri-urban areas. At the same time, existing development challenges such weak human development outcomes, the infrastructure gap, low financial inclusion and high debt continue to weigh on the country.

Relationship to CPF

The proposed operation is consistent with the Bank's Country Partnership Framework (CPF) for Mozambique and is part of a comprehensive approach by the World Bank Group to help Mozambique manage and respond to Covid-19. The proposed emergency DPO is aligned with several of the policy objectives formulated under the CPF focus areas. Pillar 1 of this operation supports the CPF objectives of improving health service delivery, improving access to water and sanitation, extending coverage of social protection and labor programs and improving the business environment for job creation. Pillar 2 supports the objectives of improving economic management, increasing accountability and transparency of government institutions and improving the business environment for job creation and improving health service delivery. This operation is also part of a broader package of support by the World Bank Group to help Mozambique manage and respond to the current crisis, including scaled up support to health and social protection.

C. Proposed Development Objective(s)

The objectives of the proposed operation are to (i) mitigate the impact on lives and livelihoods by supporting the immediate Covid-19 response, and (ii) support reforms that will aid the recovery and enhance fiscal sustainability. The operation will provide emergency financing to the government as it strives to maintain macro-fiscal stability, whilst also supporting small businesses and households in managing the impact that social distancing measures will have on their income streams. The financing provided through this operation is urgently needed to help close a large financing gap and prevent a more prolonged crisis. As Mozambique enters this crisis in a situation of debt distress and protracted economic slow-down after the hidden debt crisis of 2016, this operation is also aimed at strengthening the framework for fiscal and debt sustainability.

Key Results

The proposed DPO is expected to help the GoM mitigate the economic impact of Covid-19 and support economic recovery over the medium-term. The response measures will help to safeguard lives and livelihoods by helping contain a widespread contagion, increasing the GoM's preparedness in terms of health services, and allowing poor households to follow hygiene protocols. A number of measures, such as the expansion of the social protection programs, water bill payment relief and support to firms will help to protect incomes and livelihoods. The recovery measures will help to protect the future by aiding the recovery of economic activity through better community health services, financial inclusion, and improved fiscal management.

D. Concept Description

The proposed operation will contribute to addressing the enormous health, poverty and economic challenges associated with the pandemic. The operation proposes to do so through two pillars of support. The first pillar addresses the response to the pandemic by supporting the health sector crisis response, by ensuring continuous access to water for



the urban poor, by increasing the reach of social safety nets and by providing liquidity support to firms and the financial sector. The second pillar seeks to aid the economic recovery by improving health service delivery at the community level, improving the conditions for financial inclusion, and strengthening the insolvency regime for firms. In addition to this, the program also supports enhanced debt transparency and fiscal risk management and strengthens the regulatory framework for public investment management.

The program fits within Government's overall response to the COVID-19 crisis, its 5-year plan and complements other supporting World Bank activities. The policy actions and reforms supported by the operation aim to support the health response of Government, support businesses, and protect the most vulnerable through cash, transfers and bolster the fiscal and debt sustainability framework in times of significant additional financing needs. The program balances addressing critical emergency issues with putting in place elements of a medium-term framework for improving resilience, the capacity to respond to future crises, and maintaining fiscal sustainability. It responds directly to two out of three priorities of the government's 5-year plan (human capital development and economic growth, productivity and employment generation) and supports the cross-cutting pillar on democracy and social cohesion.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The Covid-19 response prior actions under pillar one are likely to have positive poverty and social effects in urban areas, which are the most affected by Covid-19 social distancing measures. The health and water sectors' response measures are expected to save lives by helping contain a widespread contagion, increasing the GoM's preparedness in terms of health services, and allowing poor households to follow hygiene protocols. In addition, the water related prior action targets the most vulnerable households in urban areas, given the higher impact of social distancing on this group. The impact of this measure will be more modest in rural areas, where most of the population does not yet have access to piped water services. The expansion of social safety nets is expected to have a positive impact on poverty by increasing the income of 1.7 million households in urban and peri-urban areas. Lastly, the deferral of corporate income tax payments under is expected to have a positive impact on jobs as it provides cash flow relief to firms in the formal sector. But the direct impact on the poor will be relatively muted given that most of the poor work in the informal sector.

The Covid-19 recovery prior actions under pillar two will aid the recovery of economic activity and improve the chances of future generations to benefit from the approaching resource boom. Creating greater debt transparency and improving fiscal risk management will increase accountability to the public and limit the cost of underperforming SOEs on the budget, freeing up more resources for service delivery and public investment. The approval of decree for public investment management will provide the framework for improving the economic and social impact of public investments. With this, Mozambique stands a better chance to translate future revenue streams into public investment that will benefit all parts of society and reverse the recent trend of increasing inequality. The simplified bank account law will increase the reach of banking services to the poor, who tend to have insufficient or no identification documents - by simplifying identification requirements. The ability to save and obtain credit will allow these households in the future to adjust better to income shocks like the one induced by Covid-19. The finalization of the insolvency law reform through the institution of the regulator of insolvency administrators increases the chances that a higher share of assets lost during an insolvency can be recovered and repurposed in the economy (rather than being written off or being absorbed by the fees for lengthy court proceedings). The direct poverty reducing effect of this reform is expected to be small as the vast majority of the population works in the informal sector, but those that have a formal job stand a greater chance to see their job preserved where firms that declare insolvency are restructured (rather than liquidated).



Environmental, Forests, and Other Natural Resource Aspects

The reforms supported under the proposed operation are not expected to have significant positive or negative effects on the environment, forests and other natural resources, but the fuel stabilization levy could contribute to a reduction in the consumption of petroleum products. Under pillar one, facilitating access to critical medical equipment is linked to an expected increase in the volume of medicinal and equipment imports as part of the health sector response. The disposal of such equipment, and other materials related to the pandemic response will follow the safe disposal guidelines in use within the health sector. The establishment of a fuel price stabilization fund could contribute to limiting the drop in the cost of petrol and diesel at the pump. It is therefore expected to contribute to a reduction in demand for these products and thus contribute to lowering carbon emissions. The other prior actions under the first pillar are not expected to have a positive or negative effect on the environment, forests and other natural resources. Under pillar two, the public investment management decree relates to the requirements for an improved investment management system as opposed to any specific investment. This reform is not expected to increase the volume of investment but to increase their quality, including through the review of the environmental impact assessments of projects during project appraisal. The remaining prior actions under pillar two relate to institutional reforms and measures to enhance transparency, which are not expected to have significant effects on environment, forests and other natural resources.

CONTACT POINT

World Bank

Shireen Mahdi, Carolin Geginat
Senior Economist

Borrower/Client/Recipient

Ministry of Economy of Finance

Implementing Agencies

Ministry of Economy and Finance
Adriano Ubisse
Director of National Treasury
aubisse@gmail.com



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Shireen Mahdi, Carolin Geginat
----------------------	--------------------------------

Approved By

Country Director:	Idah Z. Pswarayi-Riddihough	07-Aug-2020
-------------------	-----------------------------	-------------