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Report No: PAD2983

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 85.7 MILLION
(US$117 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MOZAMBIQUE

FOR A

NATIONAL URBAN DEVELOPMENT AND DECENTRALIZATION PROJECT

June 5, 2020

Social, Urban, Rural And Resilience Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2020)

Currency Unit =	Mozambican Metical (MZN)
MZN 62.52 =	US$1
SDR 0,73 =	US$1

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

ANE	*Administração Nacional de Estradas* (National Roads Administration)
APA	Annual Performance Assessment
3CP	Cities and Climate Change Project
CAPEX	Capital Expenditure
CPF	Country Partnership Framework
COVID-19	Coronavirus Disease 2019
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
DNUH	*Direcção Nacional de Urbanização e Habitação* (National Department of Urbanization and Housing)
DUAT	*Titulo de Direito de Uso e Aproveitamento da Terra* (Land Use and Benefit Right Title)
e-SISTAFE	*Sistema de Administração Financeira do Estado* (*State Financial Management System*)
ESMF	Environmental and Social Management Framework
FCA	*Fundo de Compensação Autárquica* (Municipal Compensation Fund)
FDD	*Fundo de Desenvolvimento Distrital* (District Development Fund)
FID	*Fundo de Investimento Distrital* (District Investment Fund)
FM	Financial Management
FRELIMO	*Frente de Libertação de Moçambique* (Mozambique Liberation Front)
GDP	Gross Domestic Product
GIDE	*Grupo Inter-Ministerial de Descentralização* (Inter-Ministerial Group of Decentralization)
GIZ	*Deutsche Gesellschaft fur Internationale Zusammenarbeit* (German Agency for International Cooperation
GoM	Government of Mozambique
GPA	Grant Participation Agreement
HCI	Human Capital Index
IASISA	*Imposto Autárquico de SISA* (Municipal Property Transfer Tax)
IFR	Interim Financial Report
IGF	*Inspecção Geral das Finanças* (General Inspectorate of Finance)
IPF	Investment Project Financing
IPRA	*Imposto Predial Autárquico* (Municipal Property Tax)
IRM	Immediate Response Mechanism
IRR	Internal Rate of Return
KfW	*Kreditanstalt für Wiederaufbau*
LGRP	Local Government Reform Program

MAEFP	*Ministério da Administração Estatal e da Função Pública* (Ministry of State Administration and Public Service)
M&E	Monitoring and Evaluation
MEF	*Ministério de Economia e Finanças* (Ministry of Economy and Finance)
MFD	Maximizing Finance for Development
MFUD	Maximizing Finance for Urban Development
MMDP I	Maputo Municipal Development Program Phase I
MMDP II	Maputo Municipal Development Program Phase II
MOPHRH	*Ministério de Obras Públicas, Habitação e Recursos Hídricos* (Ministry of Public Works, Housing, and Water Resources)
MPG	Municipal Performance Grants
MTA	*Ministério de Terra e Ambiente* (Ministry of Land and Environment)
O&M	Operation and Maintenance
OPEX	Operational Expenditure
PCG	Project Coordination Group
PDO	Project Development Objective
PEUM	*Plano de Estrutura Urbana Municipal* (Municipal Urban Structure Plan)
PFM	Public Finance Management
PFS	Project Financial Statement
PGU	*Plano Geral Urbano* (Urban General Plan)
POM	Project Operations Manual
PIU	Project Implementation Unit
PP	*Plano de Pormenor* (Detailed Plan)
PPA	Project Preparation Advance
PPP	Public-Private Partnership
PPSD	Project Procurement Strategy for Development
PREFER	Public Revenue, Expenditure, and Fiscal Decentralization Enhancement and Reform
PSC	Project Steering Committee
RENAMO	*Resistência Nacional Moçambique* (Mozambican National Resistance)
RPF	Resettlement Policy Framework
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
STEP	Systematic Tracking of Expenditures in Procurement
SWM	Solid Waste Management
TA	*Tribunal Administrativo* (Supreme Audit Court)
UGEA	*Unidade Gestora de Aquisições* (Procurement Unit)

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TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Mozambique	Mozambique Urban Development and Decentralization Project	
Project ID	**Financing Instrument**	**Environmental Assessment Category**
P163989	Investment Project Financing	B-Partial Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[✓] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
02-Jul-2020	31-Dec-2025

Bank/IFC Collaboration

No

Proposed Development Objective(s)

To strengthen institutional performance and deliver improved infrastructure and services in participating local entities.

Components

Component Name	Cost (US$, millions)

Component 1. Urban Infrastructure and Municipal Services	92.00
Component 2. Decentralization Policy Reforms and Institutional Strengthening	20.00
Component 3. Project Management	5.00
Component 4: Contigency Emergency Response	0.00

Organizations

Borrower:	Republic of Mozambique
Implementing Agency:	Ministry of State Administration and Public Service Ministry of Public Works, Housing and Water Resources

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	117.00
Total Financing	117.00
of which IBRD/IDA	117.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	117.00
IDA Credit	117.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Mozambique	0.00	117.00	0.00	117.00
National PBA	0.00	117.00	0.00	117.00
Total	**0.00**	**117.00**	**0.00**	**117.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2021	2022	2023	2024	2025	2026
Annual	5.00	12.00	18.00	24.00	30.00	28.00
Cumulative	5.00	17.00	35.00	59.00	89.00	117.00

INSTITUTIONAL DATA

Practice Area (Lead)
Urban, Resilience and Land

Contributing Practice Areas
Governance

Climate Change and Disaster Screening
This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✔	
Performance Standards for Private Sector Activities OP/BP 4.03		✔
Natural Habitats OP/BP 4.04	✔	
Forests OP/BP 4.36	✔	
Pest Management OP 4.09		✔
Physical Cultural Resources OP/BP 4.11	✔	
Indigenous Peoples OP/BP 4.10		✔
Involuntary Resettlement OP/BP 4.12	✔	
Safety of Dams OP/BP 4.37		✔
Projects on International Waterways OP/BP 7.50		✔
Projects in Disputed Areas OP/BP 7.60		✔

Legal Covenants

Sections and Description
Schedule 2. Section I.A.1 No later than 60 days after the Effective Date, the Recipient shall establish and thereafter maintain, during implementation of the Project, the Project Steering Committee (PSC)

Sections and Description
Schedule 2. Section I.A.2.(a)(i) No later than 30 days after the Effective Date or such later date as the Association may agree, appoint provincial teams in each of the participating provinces

Conditions

Type	Description
Effectiveness	Article IV. The Project Operations Manual has been adopted by the Recipient in a manner satisfactory to the Association

Type	Description
Disbursement	Schedule 2. Section I. D.1 (a, b, c, d, e) No withdrawal shall be made under Part 5 of the Project ("Emergency Response Part"), until the Association is satisfied with the CERC disbursement conditions.

I. STRATEGIC CONTEXT

A. Country Context

1. **Mozambique has experienced important political, economic, and social changes over the past two decades.** With the end of a devastating 16-year civil war in 1992, and the implementation of political and economic reforms, gross domestic product (GDP) per capita growth has been strong. Real GDP growth averaged 7.0 percent between 2000 and 2017, making it one of the fastest-growing countries in Sub-Saharan Africa. Growth has been supported by macroeconomic reforms, a number of large-scale foreign investment projects in the extractive sectors, political stability, and large donor support. The economic expansion boosted incomes and living standards and placed poverty on a declining trend. By 2014, the poverty rate dropped to 48 percent from 59 percent in 2008. In fact, during this period, each percentage point of growth contributed to a reduction in poverty by 0.68 percent.

2. **While economic progress also improved the nonmonetary dimensions of well-being, there are still major gaps.** The average household in Mozambique has better standards of living today than at the turn of the century. School enrollment and attendance show continued improvement since the early 2000s. Average school attainment increased to 5.1 years of schooling in 2014/15 compared to 2.4 in 2003/04. Mozambicans are also living longer. Life expectancy increased by nearly 9 years since 2001 from 49 to 57. Other health outcomes such as life expectancy and infant and maternal mortality and morbidity also show some improvements. However, poverty remains high, with nearly half of the population continuing to be poor, most of whom are in rural areas. One-fifth of the population is highly vulnerable to fall into poverty. Households' geographic and income levels are strong determinants for access to basic services. Indicators such as access, electricity, food security, and stunting showed little or no improvement during the period of strong growth. In 2018, Mozambique ranked 148 out of 157 countries on the Human Capital Index (HCI).[1] The country's HCI value of 0.36 indicates that a child born in Mozambique today will be 36 percent as productive when s/he grows up as s/he could be if s/he enjoyed complete education and health.

3. **However, an economic downturn brought about by low commodity prices and a regional drought in 2015 was further worsened in 2019 as a result of weak performance in the coal industry and the tropical cyclones that put a dent on output.** In 2019, Mozambique's economy slowed to a 19-year low reaching 2.2 percent. Operational difficulties affecting coal production, along with ailing coal prices, led to a contraction in the extractive sector's contribution to growth. Agricultural output, which represents a fifth of the GDP, also narrowed as cyclones hit just before Mozambique's largest harvest season, resulting in a 0.4 percentage-point reduction in the sector's contribution to growth. In 2016, the economy declined following the revelation of US$2.2 billion (or around 11 percent of GDP) in previously undisclosed debt by state-owned enterprises (SOEs) (Moçambicana Atum SA, Mozambique Asset Management, e ProIndicus SA), which prompted a freeze in donor budget support. This resulted in a reduction in GDP growth from 7.4 percent in 2014 to 3.8 percent in 2016 and a rapid depreciation of the metical by 36 percent against the US dollar. Inflation averaged 20 percent in 2016, with food price inflation

[1] The HCI is made up of five indicators: the probability of survival to age five, a child's expected years of schooling, harmonized test scores as a measure of quality of learning, adult survival rate (fraction of 15-year-olds that will survive to age 60), and the proportion of children who are not stunted.

reaching 32 percent, making the economic downturn felt disproportionally by the poor. The additional debt and currency depreciation also implied a sharp increase in debt service obligations, adding a further 2 percent of GDP in debt service per year while the stock of public sector debt-to-GDP reached 128.3 percent at the end of 2016. Higher debt service, lower donor support, and a lack of room for borrowing have significantly shrunk the country's fiscal space. Local governments were also affected by the economic downturn as there were less resources at the national level to transfer, and own-source revenues from local governments suffered from the cooling down of economic activities at the local level.

4. **Mozambique has already shown signs of renewed stability and economic recovery, although important challenges remain.** The possibility of substantial revenues from the vast natural gas reserves found in the north of the country and an improving outlook for key commodity prices of Mozambique's largest exports have shaped expectations for a recovery in growth to over 5.5 percent by 2020. Meanwhile, new hope for definitive peace and political stability emerged in late 2017 when the leaders of the Government and Mozambican National Resistance (*Resistência Nacional Moçambique,* RENAMO) agreed to cease low-level armed hostilities which had reignited after the contested elections of 2014. This political agreement was followed by constitutional reforms to set the foundations of demobilization and decentralization. Following constitutional reforms in late 2019, national and provincial elections took place. Results indicated an overwhelming victory of the ruling party, Mozambique Liberation Front (*Frente de Libertação de Moçambique,* FRELIMO), with the reelection of the President with more than 70 percent of valid votes, election of governors in all provinces, and parliamentary majority in the national and provincial assemblies. However, the opposition parties immediately questioned the results of the elections noting that the electoral campaign was marked by many occurrences of politically motivated violence and intimidation and occurrence of systematic fraud on election day. The European Union observers confirmed a number of irregularities and bad practices on election day and during the process of resulting. Meanwhile, the military junta of RENAMO has publicly challenged the recent peace agreement, distancing itself from the party's political leadership. While the economic recovery will undoubtably help improve the country's outlook, these persistent political challenges might reignite tensions and affect the implementation of further decentralization reforms which are needed to ensure wealth is deployed transparently and contributes to inclusive growth.

B. Sectoral and Institutional Context

Harnessing the Benefits of Urbanization

5. **Urbanization, if managed well, can accelerate economic growth, poverty reduction, and structural change.** Urban growth has rapidly unfolded in Mozambique in the last 30 years with increasing concentration of people and economic activity in urban areas. Both rural-urban migration and high fertility led to a significant increase of the urban population from 7 percent to 35 percent during this period. At this rate, the urban population is expected to more than double in the next 25 years, adding more than 11 million people to cities. The data from the 2017 census show that some cities have doubled their population in only 10 years, such as Matola in the Greater Maputo Metropolitan Area. Economic activity concentrates mostly around the largest cities, alongside smaller concentrations of activity in smaller towns and urban areas. The 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 (US$1,160 versus

US$336).[2] The poverty headcount rate is significantly lower in urban areas than in the rest of the country. Poverty levels also declined faster in urban areas than rural areas. Between 1996/97 and 2008/09, poverty declined by 24 percent points in urban areas, compared to 10 percent points in rural areas.[3] In 2014/15, the poverty headcount rate for cities was 32 percent.

6. **However, the benefits of urbanization have not been equally shared across cities and among urban dwellers.** Urban poverty reduction has concentrated in few large cities that have disproportionately benefitted from economic growth. For instance, the capital city of Maputo had only 2 percent of poor residents among its 1.1 million inhabitants, while the town of Gorongoza had 84 percent in 2007/08. However, even within Maputo, the spatial patterns of poverty in the Greater Maputo Area show that poverty rates are higher the farther people are from the central business district. When differences in regional livelihood costs are considered, workers' earnings are not significantly higher in urban areas than in rural areas. The lack of a real wage premium indicates that cities are not taking advantage of agglomeration economies to increase production and create jobs for the growing urban population.[4]

7. **Investments in urban infrastructure and services have not kept pace with urban growth, affecting particularly the urban poor.** About 70 percent of urban dwellers live in substandard housing conditions located in underserviced peri-urban areas or densely populated informal settlements (*bairros de caniço*). With an average of US$8 per capita for capital investments, municipalities are barely able to maintain the urban roads and drainage canals built during colonial times. Disconnected from the urban road network, the urban poor end up spending much more time, at a high cost, to access the best jobs located in the urban cores. While access to water has improved steadily in urban areas, the greatest challenge lies in expanding peri-urban coverage and in improving operational cost recovery. Moreover, there has been little progress in urban sanitation in the past 30 years. Sanitation networks mainly cover the old colonial city centers. Outside the so-called cement city (*cidade cimento*), the reality changes drastically, from toilets connected to a septic tank to unimproved facilities discharging directly in open air. Solid waste collection has been gradually expanding in the largest cities, but coverage is generally not enough to eliminate illegal dumping practices, accumulation of waste in drainage canals, and overflow of containers. Without proper landfills, the municipal dumpsites posed serious social and environmental hazards as they are neither properly licensed nor controlled.

8. **There are no user feedback mechanisms in municipalities, which further limits participation, voice, and agency of women in the selection, design, and implementation of municipal services and infrastructure.** As a result, the access to and use of municipal infrastructure developed by municipal agencies, such as public spaces and community facilities, do not respond to women's needs or preferences (such as adequate lighting, public toilets, and sidewalks). This can impose limitations on mobility, walkability, safety, and access. The lack of gender-disaggregated data on access to services, gender-based violence, and urban crime at the municipal level hinder the identification of interventions that can ensure that women's livelihoods and a sense of safety are incorporated in the selection, design, and implementation of urban infrastructure and services.

[2] *Source:* World Bank, Mozambique Urbanization Review, 2017.
[3] *Source:* INE Household Welfare Surveys (IOF 1997, 2007).
[4] *Source:* World Bank, Greater Maputo Urban Poverty and Inclusive Growth (World Bank 2017).

9. **Urbanization is mostly unplanned, and land and housing have become increasingly unaffordable to most city dwellers**. Land was nationalized after independence, guaranteeing tenure security for social (housing) and economic (livelihood/economic activities) purposes based on customary rights, good faith, or land use and benefit right titles (*Titulo de Direito de Uso e Aproveitamento da Terra*, DUATs). After decentralization reforms in the 1990s, municipalities became responsible for territorial planning and land management within their administrative boundaries. However, they have limited capacity to undertake these critical urban management functions. Most municipalities are far behind with the required territorial planning instruments (Municipal Urban Structure Plan*, Plano de Estructura Urbana Municipal* - PEUM; Urban General Plan*, Plano Geral de Urbanização* – PGU; Detailed Plans, *Planos de Pormenor* - PPs). Municipal land cadasters are outdated, opaque, and unorganized as most municipalities still use registration (*livro tombo*) and have not enacted land management bylaws to increase transparency and rule-based practices. Acquiring or regularizing urban land is a tedious and costly process that involves as many as 100 steps over several years. All this led to unplanned and inefficient urbanization and created serious bottlenecks in the supply of formal urban land, increasing land prices beyond affordability levels for most urban dwellers. Moreover, without the recognition that land has a market value, municipalities cannot estimate the real market value of urban land to calculate land-based taxes, such as property tax (Municipal Property Tax, *Imposto Predial Autárquico*, *IPRA*) and transaction tax (Municipal Property Transfer Tax, *Imposto Autárquico de SISA, IASISA*), which have the potential to become the main financing instruments for urban infrastructure investments.

10. **Despite a progressive legal framework, women do not exercise their land rights.** According to 2020 Women, Business, and the Law Report, Mozambique scores well on legal equality and women have equal rights to property, equal rights to inherit, and equal authority over marital assets. Mozambique's Land Law of 1997 recognizes women as co-title holders of community-held land and calls for the election of community representative bodies (which must include women) to identify and record community land boundaries. However, women are not able to exercise their land rights, particularly in rural areas, due to their lack of knowledge of opportunities to articulate their interests in land, learn about land rights, and assume leadership roles. In urban areas, municipalities are responsible for managing the stock of public land within their administrative boundaries, playing a key role in registering and issuing DUATs. However, gender-disaggregated data collection and monitoring of land rights across municipalities are lacking.

11. **Natural hazards have a significant negative impact both at national and local levels, which is likely to increase due to climate change.** Mozambique is among the countries with the highest exposure to climate change and disaster risk. Over half of its population is vulnerable to climate-related shocks and the impacts of disasters on the country's budget and economy are sizable. Assets worth approximately 37 percent of GDP are exposed to two or more natural hazards, which translates into a 1.1 percent annual average loss in GDP. The high concentration of population and economic activities in coastal areas predisposes the country to large losses in case of extreme weather events. Cyclones and floods pose a threat to the safety of buildings and other physical infrastructure. In the transport sector, over 3,000 km of roads are prone to flooding. River floods and storm surges together cause an estimated US$22 million in damages to these roads per year. Climate change projections for Mozambique indicate decreased rainfall in the dry season and increased rainfall in the wet season, which will exacerbate flood and drought impacts. Furthermore, coastal areas will be affected by sea-level rise and increases in the frequency and severity of cyclones. Flooding and erosion prevention have received limited attention by municipal councils. Municipal land use plans have yet to incorporate risk mapping and green zoning to improve urban resilience to climate change. Local communities, in particular the urban poor, are often the most

affected by climate change events. Most live in houses in informal areas built with precarious materials that are easily destroyed by strong winds and without basic urban infrastructure (paved roads, water and sanitation, drainage, and waste collections), which exacerbates the human and material impact of flooding from intense storms.

12. **Highly contagious epidemics, such as Coronavirus Disease 2019 (COVID-19), have a much higher incidence in urban areas, particularly in larger cities.** As seen in other countries, COVID-19 has mainly affected highly urbanized regions in China, Italy, Spain, and more recently the United States. The spread of COVID-19 in African cities is just beginning, but it could have catastrophic impacts due to weak health systems, large informal economy, and already high poverty levels. About 100 cases have already been confirmed in Mozambique up until mid-May 2020, and this number is increasing by 30–40 percent every week. Cities with large informal areas and many points of entry are more exposed to the pandemic. Because of much higher population density, social distancing is not common and more difficult to enforce, making it much easier for the virus to spread. Cities located along the country's transport corridors are also more exposed. In addition to its immediate impact on health outcomes and, tragically, on lives, it is now clear that the COVID-19 outbreak is likely to have an immediate impact on municipal fiscal capacity. As the economy contracts, the municipal tax base will also contract, putting at risk essential municipal services during the crisis. Long-lasting economic and social impacts are expected not only at the macro-level but also at the municipal level stemming from the direct and indirect effects on the urban economy. Local small and medium enterprises (SMEs), the urban poor, and workers in the informal sector, who make up the majority of people in Mozambican cities, will be at greater risks and also suffer as social distancing measures are increasingly enforced.

Incremental Decentralization

13. **While the new round of decentralization reforms is expected to increase autonomy of provincial and district governments, this will require concerted efforts to strengthen their institutional capacity to fulfill their new mandates.** Initiated in 1997, decentralization reforms favored a gradual approach with the creation of a limited number of autonomous municipalities (currently 53, in urban areas) and deconcentrated entities at provincial and district levels. This first round of decentralization reforms empowered municipalities with greater fiscal autonomy and the right to elect their local representatives for the municipal assembly and executive office (mayor). It also devolved key administrative functions such as public finance management (PFM), territorial planning, and land management as well as key infrastructure and services delivery responsibilities. Provinces and districts as well as sub-district levels (administrative posts and localities) remained deconcentrated government entities with no fiscal or administrative autonomy and served as extensions of the central state. With the 2018 constitutional changes that opened the way for a second round of decentralization reforms, the country is taking a step forward toward greater autonomy for provincial and district governments. In the October 2019 elections, the governors were elected for the first time, while in 2024 it will be the turn of district heads. Provincial governments and subsequently districts will have specific administrative functions and resources to provide basic infrastructure and services at the appropriate level. The Government has recently approved a legislative package of laws defining the new decentralization framework. These laws include the following: the law on the election of the provincial assembly and the governor, the law on the tutelage from the central government on provinces and municipalities, the law on the composition and functioning of the provincial assemblies, the law on the organization and functioning of the central government entities at the provincial level, and the financial law for provinces.

14. **However, there are numerous challenges to the implementation of the decentralization reform**. Decentralization implementation has been slow and, by some accounts, the impact on service delivery has been marginal, due in part to conflicting expenditure assignments (functions), centralized revenue assignments, which lead to consistent underfunding of local-level entities, poor coordination of budget planning and other PFM responsibilities between levels of government, and weak public expenditure controls.

15. **With the creation of provinces as decentralized entities, clarity in the assignment of service delivery responsibilities among the different tiers of the government became a pressing issue.** The current assignment of service delivery responsibilities lacks clarity and expenditure is strongly concentrated within the central government. Legislation assigns overlapping functions to provinces, districts, and municipalities (see Table 1). This generally results in inefficient and unaccountable service provision. Provinces along the years have assumed an important role in terms 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 municipalities.[5] 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.[6] The large share of central government spending can be explained by the fact that capital expenditure (CAPEX) continues to be undertaken directly by line ministries. Around 90 percent of public investment from 2009 to 2016 was undertaken by central entities.[7] 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).

Table 1. Division of Services 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 communication	CG	CG,D,M
Infrastructure	CG	CG,P,D,M
Basic sanitation	CG	P,D,M
Energy	CG	SOE
Water supply	CG	P,D,M, SOE, 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: Government of Mozambique (GoM).
Note: CG = Central government; P = Province; D = District; M = Municipality; PS = Private sector.

16. **There is no proper system of intergovernmental fiscal transfers in place, but rather a collection of programs that were adopted incrementally aiming at assisting deconcentrated and decentralized**

[5] CESO/MEF May 2017.
[6] 2016 BOOST database.
[7] 2016 BOOST database.

entities to provide services. Intergovernmental fiscal transfers and allocations overall are not need based and fall short of promoting equity. Furthermore, they do not promote transparency in allocation decisions and undermine budgetary predictability. Despite progress in establishing rules and criteria to determine the amount to be received by each recipient, there are significant disconnects between the rules and their application.

17. **A substantial portion of municipal budgets is received directly from the central government through transfer programs.** Central transfers account for up to 63 percent of total municipal expenditures, although data on total municipal revenues and expenditures are limited, as they are not linked to State Financial Management System (*Sistema de Administração Financeira do Estado*, e-SISTAFE). Municipalities receive a block and general purpose grant (Municipal Compensation Fund, *Fundo de Compensação Autárquica*, FCA), a capital grant (Municipal Initiatives Fund), and an allocation for urban poverty reduction (Strategic Program for Urban Poverty Reduction). The Strategic Program for Urban Poverty Reduction is a program limited to municipalities that are provincial capitals which receive an annual MZN 140 million (US$2.2 million) allocation to be disbursed as loans to financially underserved vulnerable individuals (youth, women, general enterprising people, and disabled people). The grants to municipalities are not always allocated exactly according to the formulas specified in the laws or policies. An additional challenge is that the total amount transferred to municipalities is a percent of national tax receipts, which was not revised with the increased number in municipalities. The 'system' has simply not kept up with the reality of new structures of government.

18. **Districts as well receive the bulk of their financing from the central government.** Besides the funds allocated for paying wages and salaries, districts receive two programs for CAPEX: (a) District Development Fund (*Fundo de Desenvolvimento Distrital*, FDD) and (b) District Investment Fund (*Fundo de Investimento Distrital*, FID). Combined, the FDD and the FID accounted for only 9.8 percent of total district expenditures in 2015; however, they also amount to nearly all capital spending at the district level. The total allocation for both the FDD and the FID is defined during the budgeting process. Furthermore, the transfers to districts for both the FID and the FDD do not appear to be made according to the specified formula. Districts receive small amounts of additional resources through the Roads Fund program (*Fundo de Estradas*), which has a separate spending unit in the state budget and transfers funds directly to district bank accounts (intra-entity transfer).

19. **Provincial governments manage and coordinate service delivery activities at both provincial and district levels.** The Government introduced a provincial block grant to increase the equity of sectoral 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 (that is, wages and some goods and services) and occasional investments, at the discretion of the provincial governor. However, the formula is not being applied consistently.

20. **The share of central government resources in subnational entities' budgets reinforces the inequalities across these entities.** Subnational expenditures, in aggregate, show wide variation between provinces, potentially increasing inequities between Mozambique's regions. There are notable gaps in per capita expenditures in the traditionally larger, but underserved, northern provinces of Zambezia and Nampula, which together account for nearly 40 percent of Mozambique's total population. Current district expenditures are also not adjusted for poverty levels—a comparison of district expenditure and average district poverty levels shows that resources are not distributed based on need.

21. **PFM at deconcentrated and decentralized levels is work in progress.** There is little coordination between the central government, provinces, districts, and municipalities in formulating the plans and budget. The planning and budgeting at the subnational level is not adequately reflected in the national plans and annual budget, given that the temporal budget cycle is the same for all levels of government. This process is further hampered by the separation between the planning and the budgeting functions resulting in two distinct documents. Provinces and districts[8] execute their budgets through the integrated financial management (FM) system (e-SISTAFE) and while the municipalities do not have this system at their disposal, most of them have acquired off-the-shelf financial applications covering different part of the expenditure chain. Procurement procedures and capacities are lacking at the subnational level. There is no professionalization of the procurement function and not all municipalities have a Procurement Unit (*Unidade Gestora de Aquisições*, UGEA) in their organizational structure.

22. **Internal and external controls of public expenditure are weak at decentralized levels, and mechanisms for public participation and accountability are often superficial.** Municipalities do not possess an internal control organ, ignoring their legal obligations. There is no clear and unified format and reporting line for the submission of municipal activity and budget execution reports. The central government does not consolidate and analyze the reports to monitor municipalities' performance. Moreover, the Supreme Audit Court (*Tribunal Administrativo*, TA) does not possess adequate human and financial capacities to undertake regular audit visits to districts and municipalities; for example, districts of Zambezia and Niassa provinces have been last audited in 2013. There are various forums for direct participation at the local level (starting with the local councils), although their composition, representativeness, and capacity are generally considered low.

23. **Lack of coherent human resource management undermines the implementation of decentralization**. Weak workforce composition, high mobility of functionaries, and poor implementation of the system to monitor civil servants' performance and capacity gaps in municipalities create missed opportunities for revenue generation, service delivery, territorial planning, and land management.

24. **The Government has asked the World Bank to help design a program for decentralization and urban development, in close coordination with other development partners.** The intended impact is to strengthen the capacity of central government entities to steer the decentralization reform and strengthen the institutional capacity of decentralized entities to improve infrastructure and basic local services. To complement the current stage in the implementation of the decentralization reforms, the GoM's attention to an overall regional balance, the World Bank Group's Country Partnership Framework (CPF) for Mozambique, and other donors' projects, most of the project's financing will target the municipalities in Niassa, Sofala, Zambezia, and Gaza and will also focus on building the institutional capacity of these provinces and their respective districts.

C. Relevance to Higher Level Objectives

25. **The proposed project articulates with the Mozambique CPF for FY17–FY21[9], in particular with its Objective 10: Promoting Inclusive Urbanization and Decentralization**. The CPF recommends that the

[8] Not all the districts have access to e-SISTAFE. Approximately, 87 percent of beneficiary management units—*Unidade Gestora Executora*—out of 1,525 are using e-SISTAFE.
[9] Report No. 104733-MZ

new lending will focus on improving infrastructure and urban services to the urban poor, increasing own-source revenue, and improving urban planning and land management at the municipal level. In this respect, the project will contribute to the following indicators: (a) accumulated increase in municipal and district own revenue, (b) accumulated increase in decentralized sector expenditure for the provision of basic services, (c) number of municipalities with land and property tax cadasters covering at least 50 percent of land/properties, and (d) number of municipalities with urban plans formulated and monitored through participatory mechanisms.

26. **The project will also support CPF Objective 8: Increased Accountability and Transparency of Government Institutions.** The CPF highlights the need to strengthen government systems to improve equity and transparency of fiscal transfers and allocations as well as increase institutional capacity of selected districts and municipalities to deliver basic infrastructure and services. The project will also be instrumental in achieving CPF Objective 11 on improving management of climate risk and natural resources. Institutional development activities to be financed by the performance grants will help ensure that investments in infrastructure and basic services mitigate the negative impact of climate events.

27. **The project will contribute toward the World Bank's twin goals, the Maximizing Finance for Development Commitments (2018), the Climate Change Action Plan (2016–2020), and the Gender Equality Strategy (2016–2023).** Drawing on the Addis Agenda, and expanding on the Hamburg Principles and Ambitions, the proposed project will help operationalize maximizing finance for development (MFD) by providing co-finance and technical assistance to unlock and leverage private sector investments in improving urban infrastructure and municipal services. The project will also contribute to climate co-benefits by financing investments in urban infrastructure and municipal services to better adapt to and mitigate the impacts of climate events, such as flooding and erosion control. In line with the World Bank Group's plan to enhance action toward resilience to climate change that does not leave anyone behind (Climate Change Action Plan, Priority III, high-impact area vi), the project will pay special attention to people living in extremely vulnerable areas, including women and children.

28. **The project will be central to the Government's key priorities of improving access to and sustainability of basic infrastructure and services and implementing the decentralization reforms**. The project will provide funds to improve the planning, delivery, and operation and maintenance (O&M) of urban infrastructure and services under the responsibility of municipal councils through performance-based grants, maximizing finance for urban development (MFUD), and institutional strengthening. The project will also help strengthen the capacity of actors (central and deconcentrated agencies, municipalities, communities, and citizens) involved in the recent decentralization reforms. The timing of the project will be instrumental to the recently approved constitutional reforms (April 2018), which will provide greater autonomy to provincial governments (starting with the October 2019 elections) and district governments (with the 2024 elections).

29. **Finally, the project will play a key role in strengthening the capacity of city governments in the frontline of COVID-19 response**. During project preparation, the project helped develop a Municipal COVID-19 Action Plan. This guiding instrument identified the main risks of the pandemic to key municipal functions and formulated priority actions so that municipalities are in a better position to undertake a response. The plan will guide the municipalities to (a) implement Municipal Emergency Operational and Management Center and Continuity Plan; (b) understand the spread and impact of COVID-19 in each municipality; (c) undertake actions to slow and reduce transmission in urban areas; (d) target protection

of high-risk groups; (e) strengthen key municipal services, including basic health, sanitation, and social assistance, and municipal policy; (f) expand community outreach and communication; and (g) mitigate the economic and social impacts though support to local SMEs, informal economy, and labor-intensive infrastructure and services. More importantly, the project will provide funds directly to the municipalities to implement the priorities in the action plan during a time when intergovernmental transfers and municipal own-source revenues are negatively affected due to overall reduction in GDP. Thus, the project will provide a vital financing vehicle for putting Mozambican municipalities in the frontline of COVID-19 response, which will help reduce the economic impacts of COVID-19 on jobs, SMEs, and the country's economic recovery as a whole.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

30. To strengthen institutional performance and deliver improved infrastructure and services in participating local entities.

PDO-Level Indicators

- Number of direct beneficiaries with improved basic infrastructure and services under the project (gender-disaggregated)
- Increased score in the APA averaged across all participating municipalities that qualify for the MPG

B. Project Components

31. **The proposed project will have four components:** Component 1 - Urban Infrastructure and Municipal Services (US$92 million); Component 2 - Decentralization Policy Reforms and Institutional Strengthening (US$20 million); Component 3 - Project Management (US$5 million); and Component 4 - Contingency Emergency Recovery (US$0 million).

32. **Component 1: Urban Infrastructure and Municipal Services (US$92 million).** This component will provide financing to improve urban infrastructure and municipal services and strengthen urban management capacity in participating municipalities. Particular attention will be given to support municipal responses to COVID-19. The component will be divided into three subcomponents: (a) Municipal Performance Grants (US$53 million), (b) Maximizing Finance for Urban Development (US$30 million), and (c) Urban Management Technical Assistance (US$9 million).

33. **Subcomponent 1A: Municipal Performance Grants (US$53 million).** This subcomponent will provide US$52 million of Municipal Performance Grants (MPG) to selected municipalities to finance works, goods, and institutional strengthening activities which lead to improvements in urban infrastructure and basics service. The MPG will cover all municipalities in the provinces of Gaza, Niassa,

Zambezia, and Sofala. The MPG will be divided into four annual cycles. The participating municipalities will receive their annual allocation to finance a wide range of local infrastructure and services improvements (such as roads, sidewalks, water and sanitation, solid waste management, drainage and erosion control, street lighting, markets and public and community spaces, and basic health care) and capacity development activities related to their core functions (such as territorial planning, land management and modernization equipment and training, consultations, and climate change impact assessment). Municipalities will propose the activities to be financed under this subcomponent through the development of sector-level plans that will build on the comprehensive municipal infrastructure and land diagnostic currently being supported by the Project Preparation Advance (PPA). Sector-level plans will also respond to gender gaps[10] identified in the diagnostics and monitor implementation of these activities. Eligible expenditures will be screened against the project's eligibility criteria (see Annex 3) and the project's safeguards instruments (Environmental and Social Management Framework [ESMF] and Resettlement Policy Framework [RPF]). The eligibility and design of the subprojects will be also assessed against technical and economic feasibility, impact on poverty reduction, and contribution to climate adaptation and mitigation considerations. Priority will be given to support the implementation of the Municipal Action Plan for COVID-19 Response (see Annex 6), particularly to support (a) implementing the Municipal Emergency Operational and Management Center and Continuity Plan; (b) monitoring the spread and impact of COVID-19 in each municipality; (c) slowing and reducing transmission in urban areas; (d) focusing protection on high-risk groups; (e) strengthening key municipal services, including basic health, sanitation, and social assistance, and municipal policy; (f) expanding community outreach and communication; and (g) mitigating the economic and social impact though support to local SMEs, the informal economy, and labor-intensive infrastructure and services. The subprojects should also incorporate climate risk analysis and climate design considerations to promote energy efficiency and/or use of renewable energy sources. The activities financed under the MPG will be included in the annual budget plans of the municipalities and will be audited as part of the municipal auditing requirements.

34. **The calculation of the MPG to each municipality will be based on a transparent formula that combines a set of minimum conditions and performance indicators**. About 30 percent of the allocation will be determined through a population-based formula and disbursed to the municipalities that comply with a set of minimum conditions. Up to 70 percent will be disbursed to the eligible municipalities based on their performance, assessed annually against a set of performance indicators. In the first year of the MPG, the allocation will be based only on minimum conditions criteria and in the subsequent MPG cycles, the allocation will combine both minimum conditions and performance indicators. For Years 2 to 4, there will be a cap of 10 percent of the total annual MPG allocation that each municipality could use for institutional development activities. As such, the MPG will provide both incentives for the municipalities to improve performance in key areas and resources to significantly increase their investment capacity by topping up their own-source revenues and intergovernmental fiscal transfers.

35. **This subcomponent will also finance the independent Annual Performance Assessments (APAs, US$1 million) that will be the basis for the yearly disbursements to eligible municipalities.** The assessment will measure the performance of each municipality against the project's minimum conditions and performance indicators. Each qualifying municipality will obtain a score which will then be converted to a corresponding financing amount. The sum of these individual amounts will comprise the

[10] The project will use the 2020 World Bank Handbook for Gender-Inclusive Urban Planning Design as a reference document for this activity.

disbursement to be made for that year. The robustness of the annual assessment will also be checked through an annual sample audit of the annual assessment which will be undertaken as part of the World Bank supervision. The APA will first assess whether the municipality meets a set of minimum conditions to be eligible for receiving the project funds. This is to ensure that project funds will be properly used and in compliance with Government and World Bank fiduciary and safeguards requirements. The APA will also verify the performance against a set of indicators to scale up the MPG allocation starting from Year 2. These indicators will cover two main themes: (a) Urban Infrastructure and Services Delivery and (b) Municipal Public Finance and Administration. Particular attention will be given to municipalities that can demonstrate that the MPG will be used to improve climate adaptation and mitigation and gender equality (for details, see Annex 3).

36. **Subcomponent 1B: Maximizing Finance for Urban Development (US$30 million).** The MFUD subcomponent will provide funds for any of the 53 municipal councils in Mozambique that can demonstrate viable projects that could complement, attract, or leverage private sector investments to improve urban infrastructure and municipal service in areas such as solid waste management, urban mobility, municipal markets, housing, and economic activities. As such, the MFUD could finance public infrastructure which can unlock or complement private investments in private goods; is aligned with public policies; and is economically, environmentally, and socially sustainable. Priority will also be given to proposals that reduce the social and economic impact of COVID-19, such as through supporting SMEs and labor-intensive urban infrastructure and municipal services. For instance, the project funds could be used to improve a municipal road (public infrastructure) which is needed to unlock a private investment in manufacturing or housing. The MFUD could also provide co-financing to public-private partnerships (PPPs). In this case, the project funds could be used to finance a share of capital investments costs (CAPEX) and/or a share of operational costs (OPEX) required to attract private investments and ensure financial sustainability. Finally, the subcomponent will also finance technical assistance to support the preparation and evaluation of MFUD proposals, including feasibility studies and other consulting services to assist the municipalities in subproject preparation, negotiation, and operation. It is expected that the project will start by supporting municipalities that already have proposals in their pipeline that fit the MFUD, while the project provides capacity building and technical assistance incrementally to other municipalities which could benefit from the MFUD later during project implementation. The MFUD will also prioritize projects that can contribute to reduce gender disparities and are responsive to climate change impacts. Ultimately, the MFUD will help municipalities implement strategic investments that are much larger than the investments they can realize from their annual budget cycle, which is often necessary to secure private sector participation.

37. **Subcomponent 1C: Urban Management Technical Assistance (US$9 million).** The objective of this subcomponent is to improve the institutional capacity in the participating municipalities on core urban management functions. Under the guidance of the Ministry of Public Works, Housing, and Water Resources (*Ministério de Obras Públicas, Habitação e Recursos Hídricos,* MOPHRH), this subcomponent will finance technical assistance and capacity building on urban infrastructure planning; project management (design, procurement, and execution); and O&M. It will cover the key infrastructure and services delivery areas under the responsibilities of municipalities such as local roads/mobility, small water and sanitation systems, drainage and erosion control, and markets and public spaces. Particular attention will be given to strengthen municipal capacity to respond to COVID-19. Under the guidance of the Ministry of Land and Environment (*Ministério de Terra e Ambiente*, MTA), this subcomponent will also support strengthening the capacity of the participating municipalities on urban territorial planning,

municipal land administration, and urban environmental management. This includes support for preparing or reviewing urban plans (PEUM, PGU, and PP); modernizing municipal land cadasters; and scaling up land tenure regularization, including DUATs in the name of women. Technical assistance provided by MTA on territorial planning and land management will complement equipment, software, training, and consultations that municipalities can finance through the institutional development activities that are eligible under the MPG of Subcomponent 1A. Consultations will include information sessions for women to raise awareness of their rights and ensure their participation in prioritizing municipal investments and exercising their land rights, including through the issuance of DUATs. Particular attention will be given to social and environmental safeguards, including resettlement. The subcomponent will also finance capacity-building and technical assistance activities to strengthen the capacity of provincial and central governments to improve regulations and their capacity to support municipalities in those areas. Finally, it will support capacity-building activities on urban resilience, particularly on how to incorporate climate risk considerations in the planning and design of urban infrastructure. It will also support capacity-building efforts to incorporate gender equity considerations in the formulation of urban infrastructure and services delivery.

38. **Component 2: Decentralization Policy Reforms and Institutional Strengthening (US$20 million).** The objective of this component is to improve resources, performance, and accountability of municipalities, provinces, and districts by (a) improving policies and as needed legal and regulatory frameworks on fiscal decentralization and human resources and (b) improving core public sector management functions at provincial, municipal, and district levels. The component will be divided into two subcomponents: (a) support to the overall leadership of the decentralization reform process and (b) institutional strengthening of subnational entities in public sector and FM. This component will primarily focus on the municipalities, while advising the Government on framing a new intergovernmental system for provinces and districts.

39. **Subcomponent 2A: Support to the Overall Leadership of the Decentralization Reform Process (US$6 million).** Building on the impetus created by the constitutional change, this subcomponent will support the Ministry of State Administration and Public Service (*Ministério da Administração Estatal e da Função Pública***,** MAEFP), the Ministry of Economy and Finance (MEF)**,** and the Mozambique National Association of Municipalities (*Associação Nacional dos Municípios de* Moçambique) in leading, advocating, and coordinating decentralization reforms—through a mix of technical assistance and capacity building—to (a) adopt a national program for decentralization with a detailed results framework to guide the reform; (b) revamp the Inter-Ministerial Group of Decentralization (*Grupo Inter-Ministerial de Descentralização*) to secure political buy-in from the start; (c) develop and/or revise the legal and regulatory framework; (d) clarify the roles and competencies of the different government levels for better local service delivery; (e) establish a coherent intergovernmental fiscal transfers system through more transparent, needs-based, and predictable transfer to municipalities, provinces, and districts as well as reforming the subnational tax system, while establishing clear accountability and reporting mechanisms; and (f) annually publish information on fiscal transfers to municipalities (amounts and timeliness of transfers) while improving governance at the municipal level (design and launch yearly awards for good governance at the municipal level). Particular attention will be given to support own-source revenues through needed changes in laws and regulations and dedicated technical assistance to set up efficient tax units in participating municipalities. A strategy to improve own-source revenue will also be developed. A study on the tax base and collection process and procedures at the different government levels—

province, district, and municipality—is currently being undertaken in the framework of the PPA and will inform the project interventions in the own-source revenue area.

40. **This subcomponent will also support strengthening procedures for the execution and monitoring of local budgets to increase the effectiveness of public expenditures at the local leve**l. Specifically, it will (a) support the TA with capacity building of the TA in subnational public finance auditing, (b) revise the instructions defining the process and procedures for the development of the municipalities' annual financial reporting (*Conta de Gerência*), and (c) develop guidelines and roll out institutional capacity strengthening of municipalities for the preparation of annual financial reports.

41. **This subcomponent will also support MAEFP to review rules and processes for civil service employment at the municipal level and propose changes to improve incentives and performance**. To address a core binding constraint linked to mobility of civil servants, an assessment of mobility trends by skills, levels, and geographic location will be undertaken to identify options for policy reform.

42. **Subcomponent 2B: Institutional Strengthening of Subnational Entities in Public Sector and Financial Management (US$14 million).** The project will help strengthen the capacity of actors (central and deconcentrated agencies, municipalities, communities, and citizens) involved in the recent decentralization reforms, through supporting the Government in creating a comprehensive supply-driven capacity-building strategy and mechanisms for assisting and empowering provinces and municipalities in managing human and financial resources and develop comprehensive training programs and change management activities, in collaboration with public training entities as well as roll out such trainings packages for key public administration and governance positions at the local level (local-level administrators, members of provincial and municipal assemblies, and so on).[11] The subcomponent will also provide support to the development and phased rollout of an automated FM system at the municipal level. An initial assessment of existing PFM information management capacity (systems, information and communication technology infrastructure, and human resources) at the municipal level (ongoing) will inform whether to adopt a centralized system (*Sistema de Gestão Autarquica*) or to support a decentralized system through which municipalities can have more flexibility to acquire different systems provided they are interconnected with e-SISTAFE. After the assessment, the subcomponent will support the development, piloting, and rollout of these initial modules to all participating municipalities. This subcomponent will also provide support to strengthen social accountability for non-state actors to participate in local government decision-making, with particular attention to women and girls. Under the project preparation, a social accountability and gender equity assessment was undertaken to identify specific actions to strengthen community participation and gender equity which the project will support during implementation.

43. **Component 2 will build synergies with the World Bank-financed Public Revenue, Expenditure, and Fiscal Decentralization Enhancement and Reform (PREFER) Project (P170840).** PREFER will fund discrete strategic technical assistance and implementation support activities in the area of fiscal decentralization that are better suited to World Bank-executed implementation and, most importantly,

[11] This project component will primarily focus on the municipalities and support provinces, districts, and other entities to the extent that these entities will ease the deployment and management of human and financial resources to municipalities for enhanced service delivery provision.

will avail funding to incentivize government agencies to improve the intergovernmental fiscal system, as monitored through the achievement of annual targets on intergovernmental fiscal transfers.

44. **Component 3: Project Management (US$5 million).** This component will finance project preparation and implementation management costs, including technical studies, Project Implementation Unit (PIU) staff, and the PIU's operational costs. The PIU will be responsible for the overall project management functions across all components. At the central level, the team will comprise a PIU coordinator, an FM specialist, a procurement specialist, an accountant, a monitoring and evaluation (M&E) specialist, a social safeguards specialist, and an environmental safeguards specialist. The social safeguards specialist will also oversee and ensure information sessions and consultations are conducted to raise awareness of women's rights to identify urban services and to articulate their interests in access to land. The PIU at the central level will be assisted by a senior technical team from the relevant line ministries. The PIU will set up provincial teams in each of the four provinces (Gaza, Zambezia, Sofala, and Niassa), comprising a coordinator, a social safeguard specialist, and an environmental safeguards specialist. The PIU at the provincial level will be assisted by the provincial government departments and will have the responsibility of assisting the project implementation in each province.

45. **Component 4: Contingency Emergency Response (US$0 million).** This Contingency Emergency Response Component will facilitate access to rapid financing by reallocation of uncommitted project funds in the event of an Eligible Crisis or Emergency. Specific details about this component (including activation criteria, eligible expenditures, specific implementation arrangements, and staffing) will be part of the Contingency Emergency Response Manual.

Table 2. Project Financing by Component

	Project Components	IDA financing (USD million)	PPA (USD million)
Component 1: Urban Infrastructure and Municipal Services		**92.0**	**1.5**
1A	Municipal Performance Grants	53.0	0.5
1B	Maximizing Finance for Urban Development	30.0	0.1
1C	Urban Management Technical Assistance	9.0	0.9
Component 2: Decentralization Policy Reforms and Institutional Strengthening		**20.0**	**1.5**
2A	Support to the Overall Leadership of the Decentralization Reform Process	6.0	1.5
2B	Institutional Strengthening of Subnational Entities in Public Sector and Financial Management	14.0	
Component 3: Project Management		**5.0**	**2.5**
Component 4: Contingency Emergency Response		**0.0**	**0.0**
Total Financing Required		**117.0**	**5.5**

C. Project Beneficiaries

46. The direct project beneficiaries are the 676,569 residents of the participating municipalities who will have better access to urban infrastructure and municipal services across a range of subsectors, including local roads, water and sanitation, storm water drainage (and reduction of flooding), waste management (increased collection), and local markets. In addition, residents and the private sector will indirectly benefit from the institutional development activities aimed to strengthen intergovernmental fiscal transfers; provinces, district, and municipal public sector management; municipal land management; urban planning; and urban environmental management.

D. Citizen Engagement

47. **To ensure political inclusion and representation, public consultations with non-state actor stakeholders and feedback mechanisms will be central to project interventions**. Public consultations will take place for the planning of the priority investments in all participating local entities, and will consider gender participation, as well as the effects of proposed project-supported changes and reforms on beneficiaries through a gender lens. A social accountability study was conducted in the framework of the PPA which has identified additional entry points to strengthen citizen participation, gender, and social accountability. Finally, the project will apply a monitoring and supervision e-platform that will not only allow the Government and the World Bank and to closely monitor the project implementation across all subprojects and geographic areas but also serve as a beneficiary/users' feedback instrument for public information about the project and for providing feedback and complaints.

E. Gender Considerations

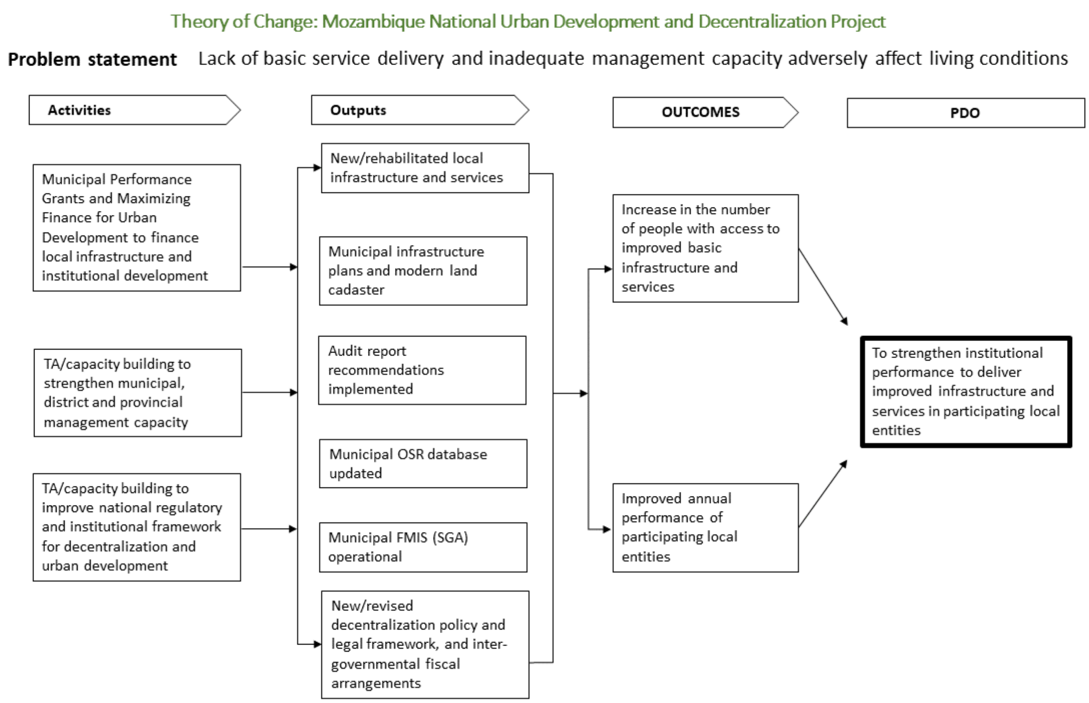
48. **The project will address gender gaps in women's participation in identifying priority urban services and in exercising their land rights.** Anecdotal evidence points to project-relevant gender gaps between males and females both in terms of how men and women participate in the identification of municipal investment projects and how they exercise their land rights. The Government conducted an analysis of gender gaps in the framework of a social accountability and gender study to analyze barriers for women and girls and develop appropriate actions within the scope of the project. In particular, the study noted that women are not aware of their right to participate in municipal planning processes and how planned activities or investments can affect women. On land rights, under the Cities and Climate Change Project (3CP, P123201), DUATs were issued in 26 municipalities in Mozambique, but the extent to which these were issued solely or jointly to women was not monitored. The project will therefore address gender gaps by ensuing that (a) sector-level plans respond to gender gaps identified in the municipal infrastructure and land diagnostic and propose measures to ensure the participation of women in the identification, design, and implementation of urban services and infrastructure to be financed under Subcomponent 1A—municipalities will be incentivized through performance grants for improving women's satisfaction with services and infrastructure; (b) investments in roads and other public spaces financed by the MPG (Subcomponent 1A) respond to women's preferences and needs; and (c) information sessions are conducted to raise awareness of women's rights to identify urban services and to articulate their interests in land. These actions will be monitored by measuring (a) the number of municipalities with one or more infrastructure sector plans that respond to gender gaps identified in the municipal infrastructure and land diagnostic prepared and approved, (b) the percentage of subproject women

beneficiaries expressing satisfaction with the extent to which their preferences and needs have been considered in the design and implementation of urban infrastructure and municipal services provided by local councils through the project, and (c) the number of DUATs consistent with city-wide territorial plans (PEUM or PGU) that are granted to women through sole or joint title.

E. Results Chain

49. **Problem statement.** Lack of investments in urban infrastructure and municipal services, local entities' inadequate management capacity at decentralized entities, and weak decentralization framework adversely affect living conditions.

Figure 1. Theory of Change



F. Rationale for Bank Involvement and Role of Partners

50. **The project will support the Government's new decentralization agenda, a key element for the restoration of peace and stability in country**. The Government's commitment to decentralization is reflected in various documents since the time of independence, but this process was slow and with many setbacks. The recent political agreement between the Government and RENAMO led to constitutional reforms in 2018, setting the stage for demobilization of remaining RENAMO forces and decentralization reforms. A more effective decentralization has the potential to assist in ensuring stability and powering local development as well as to be a catalyst for citizen engagement and demand for good governance and transparency. It will allow power sharing between different government levels and greater accountability of provincial and district governments to their citizens. The Government requested the World Bank and donors' support to this new round of decentralization reforms as it understands that

these reforms will require substantial efforts to review planning, budgeting, and transfer systems as well as to build capacity of the new cadre of provincial and district leaders and officials.

51. **The project will support strengthening of the institutional capacity of municipal governments to improve infrastructure and services delivery.** The Government is committed to improve basic infrastructure and services as key to reduce poverty and accelerate economic growth, but municipalities have limited resources and institutional capacity to fulfill their mandates in the key sectors that have already been decentralized (that is, urban roads, drainage, sanitation, solid waste management, food markets, and community and public facilities). Previous projects such as the Maputo Municipal Development Program (MMDP I [P096332] and II [P115217]) and 3CP have demonstrated that the World Bank's finance and knowledge significantly affected the capacity of municipalities to deliver sustainable urban infrastructure and services. These projects have also strengthened core municipal management functions, such as tax collection, urban planning, and land management, which helped municipalities increase own-source revenue significantly (280 percent across 20 municipalities in 3CP, more than 500 percent in MMDP I and II) and attract private investments (for example, solid waste collection in Maputo). This in turn has leveraged IDA funds and reduced dependency on central government funds, which is particularly important for Mozambique as the country continues to urbanize rapidly and is facing macro-fiscal constraints.

52. **The proposed project draws upon key World Bank analytical studies recently carried out in Mozambique.** The Mozambique Urbanization Review (2017) aimed at contributing to the country's policy and institutional reform agenda on how to harness the full potential of urbanization to promote economic growth and reduce poverty. The study proposed an emerging national urban reform agenda to enhance the benefits of urbanization in Mozambique focused on (a) strengthening rural-urban links, including reforms to local government finances, and enhancing trade and commuting flows; (b) making urban land systems more equitable and efficient; and (c) deepening decentralization to provide a broader remit to municipalities for urban planning and domestic resource mobilization. The Maputo Urban Poverty and Inclusive Growth (2017) provided recommendations for specific policy and institutional reforms at national and municipal levels with the ultimate objective of increasing urban infrastructure finance through land value capture and better targeting pro-poor urban interventions. The Policy Note on Intergovernmental Fiscal Transfers (2018) was the first comprehensive assessment of the intergovernmental fiscal arrangements and their impact on subnational governments' service delivery expenditure. The Horizontal Funds Distribution to Subnational Governments in Mozambique Study (2018) analyzed the existing intergovernmental transfers system and proposed recommendations for reform.

53. **Development partners have also played an important role in supporting the Government's decentralization agenda.** Besides the World Bank, several of Mozambique's development partners have been actively engaged in different aspects of decentralization and urban development in Mozambique. This includes the German, Swiss, Italian, Irish, Spanish cooperation as well as the EU, United Nations Development Programme, and United Nations Human Settlements Programme. Currently, the development partners are financing different projects covering similar issues, but in different geographic areas, including 3CP (World Bank 26 municipalities in southern region and with *Kreditanstalt für Wiederaufbau* [KfW] finance drainage in Beira); PRODIA – Integrated Development Program for Autarchies and Surrounding Rural Zones (KfW covering provinces of Sofala, Inhambane, and Manica); PRODEM – Municipal Development Program (Switzerland covering provinces of Cabo Delgado, Nampula, Niassa, Sofala, and Zambezia); and DIALOGO – Democratic Governance Support Program and Good Fiscal

Governance (technical assistance from GIZ[12] covering provinces of Inhambane and Sofala). The proposed project has been designed in close coordination and collaboration which these development partners organized through the Decentralization Development Partners Group to ensure synergies and complementarity. This has allowed to coordinate more effectively the geographic scope of the project as well as to incorporate specific lessons learned from other donor-financed initiatives.

G. Lessons Learned and Reflected in the Project Design

54. **The proposed project builds on lessons learned from previous projects in Mozambique as well as from global trends and international experiences.** The project draws heavily from 30 years of World Bank support to urban development and decentralization in the country, most recently under the Cities and Climate Change (P123201), the Maputo Municipal Development Program II (P115217), and the National Decentralized Planning and Finance Program (P107311) projects. The project design also reflects the lessons from similar World Bank operations in other African countries, such as the Tanzania Urban Local Government Strengthening Program (P118152), the Kenya Urban Support Program (P156777), and Ethiopia Local Government Development Project II (P133592). The lessons of these similar projects informed the project's design, as further explained in the following paragraphs.

55. **Improving urban infrastructure and services delivery requires a broader systemic approach.** The project draws from substantial experience in the use of performance grants both from Mozambique (3CP) and from other countries, particularly in the Africa region (Kenya, Tanzania, and Ethiopia). It is widely acknowledged that the capacity of local governments to deliver the infrastructure and services under their mandates is influenced not only by the availability of funds but also by a number of factors that work as a system. As such, it is critical to strengthen the institutional bases of municipalities to become effective and sustainable governing and service provision entities. However, institutional change is a slow and difficult process that often meets significant resistances. The World Bank and development partners have supported performance grants successfully as they provide incentives to act on long-standing institutional and financing challenges. Building heavily on the lessons from these experiences, the project's MPG will provide clear incentives for local entities to focus on two key results areas (a) improving urban infrastructure and municipal services and (b) strengthening municipal finance and administration.

56. **Maximizing finance for urban development.** Several studies, including the World Bank's series of Urbanization Reviews over the past decade concluded that by enabling agglomeration economies, cities can be instrumental in enhancing productivity and spurring innovation and economic diversification. The density and size of cities help create larger and more diverse job markets, which in turn favor matching skills with job opportunities. A well-functioning land market and land management system are important to respond efficiently to the growing demand from private sector and citizens. However, lack of investments in urban infrastructure, unplanned urban growth, and dysfunctional land markets have undermined the potential benefits of urbanization. In most African countries, including Mozambique, urbanization has produced fragmented, low-density, and low-productive systems of cities. National and local governments have limited capacity to finance the urban infrastructure investments needed to address the existing backlog, not considering the investments needed to address future urban growth due to small share of capital investment in their annual budgets and/or legal and financial limits to borrowing. As a result, local government infrastructure investments are usually small and fragmented, making it

[12] German Agency for International Cooperation (*Deutsche Gesellschaft fur Internationale Zusammenarbeit*).

difficult to attract private financing. Considering this, the project's MFUD will offer an innovative fund window for financing multiyear investments that can unlock and leverage private sector investments in strategic urban infrastructure and key services areas. The MFUD will also provide technical assistance to help municipalities in preparing projects that can attract private finance and that can use land value capture instruments in their basket of urban infrastructure finance. This is particularly important as economic growth is expected to accelerate in the coming years and many cities in Mozambique will need to make the necessary investments to complement private sector investments and address future infrastructure needs.

57. **Africa needs to build cities that are more resilient to climate change.** Most African countries are in an early stage of urbanization, and thus they have opportunity to get urbanization right, particularly by ensuring that urbanization is inclusive, productive, and resilient to the growing impacts of climate change. Africa is the fastest urbanizing region in the world; its urban population will double in 25 years reaching 1 billion. However, many African cities are already struggling to ensure that urbanization creates enough jobs for the growing young urban dwellers, supplies serviced land and affordable housing to shelter the growing urban population, and provides modern urban infrastructure and services needed by the dynamic local entrepreneurs and foreigner investors. Investments in urban planning, infrastructure, and housing have not kept pace with this rapid urbanization in most African cities. As a result, Africa is urbanizing informally and at a low-income level. Unsurprisingly, Africa is the only region in the world in which the slum population is growing fast and at a large scale. This makes African cities not only less inclusive and productive but also much more vulnerable to climate change. Ad hoc urbanization exacerbates the impact of climate change as land prone to flooding is systematically occupied, particularly by the urban poor. Slums and informal urban settlements, covering about 70–80 percent of the urban areas in the continent, are the most affected by storms and cyclones as could be seen after the impact of the Idai cyclone in March 2019 in Beira municipality, Mozambique's fourth largest city. Establishing proper urban planning and building regulations, providing land tenure security, upgrading informal settlements, and supporting incremental housing are key for making African cities more resilient to climate changes. In this respect, this project will support municipalities to prepare and implement territorial planning instruments for guiding and regulating land use in a climate-resilient manner. The project will also help municipalities modernize their land cadasters and scale up urban land regularization. The project will also help the national and local governments incorporate climate risk considerations in regulations and in the prioritization of urban infrastructure.

58. **Small infrastructure investments provide an opportunity for hands-on training of the local government.** Most municipalities in Mozambique have limited capacity in core PFM and in infrastructure and services delivery. As in many countries where decentralization is relatively new and urbanization is growing, the role of municipal staff in the planning and management of public resources, urban infrastructure, and services has increased and becomes critical. However, in many cases, the central government or external consultants are brought in to fill this capacity gap, but without achieving long-lasting results in terms of strengthening the institutional capacity of the local government. Many projects have successfully demonstrated that small infrastructure investments, combined with on-the-job capacity support, provide the best learning platform for local government institutional strengthening. In this respect, the project will provide capacity building and technical assistance to the participating local entities covering both subnational public finance and urban infrastructure and services issues. The project will deploy qualified experts (public finance, planners, engineers, aquatics, and social and environment safeguards) to be embedded in the relevant local departments, helping and coaching the municipal staff

involved in the core local government functions. The project will also support peer learning among the participating local entities to facilitate sharing of practical lessons during project implementation.

59. **Improving institutional capacity of local governments should be accompanied by decentralization policy and institutional reforms.** The capacity of the local government to improve infrastructure and services delivery is also affected by the national policy and institutional framework. Weak decentralization has been one of the main causes of poor services and infrastructure at the local level. Without improving the enabling environment for local governments to deliver local infrastructure and services, for instance, through a robust intergovernmental fiscal transfer system, very little can be achieved by local entities. In this respect, the supporting decentralization reforms and institutional development are critical to improve outcomes at the local level. As municipalities have more resources to manage, it is fundamental to strengthen their FM system to allow them to perform financial transactions in a standardized and controlled manner. In addition to the internal FM and checks-and-balances instruments, it is fundamental to strengthen the external accountability institutions, from state and non-state actors. In this respect, the project will support advancing decentralization reforms in Mozambique, tackling key interlinked aspects: (a) improving intergovernmental fiscal transfer arrangements through a more transparent, needs-based, and predictable system; (b) supporting own-source revenue enhancement of local entities; (c) improving municipal FM information systems; (d) enhancing the capacity of the TA to audit local governments; and (e) strengthening the capacity of non-state actors such as the Association of Municipalities of Mozambique, local nongovernmental organizations, and citizens as a whole to hold local governments accountable.

60. **Strong coordination and efficient and professionally staffed project management.** Projects' implementation often involves different sector agencies, government levels, and policy and operational issues, posing coordination, technical, and project management challenges. Some projects struggle to disburse when each aspect of the project is dealt independently, for instance, by a separate PIU or a different implementing agency entity. Likewise, implementation challenges are common when there is too much centralization of decisions in one entity, undermining flexibility and proactivity of the other involved actors. To address these challenges, many projects have successfully put in place institutional arrangements aligned with sector mandates, but complemented with an overarching coordinating Project Steering Committee (PSC) and a technically strong PIU with the necessary administrative autonomy. The project's institutional arrangement follows this model. The project will have a Steering Committee comprising the permanent secretaries and senior directors of the line ministries. The project has already established a PIU to support the project preparation and implementation across all components and activities. This will ensure efficiency, flexibility, and quality in project implementation.

61. **Collaboration among development partners is essential during a project's design phase.** The design of the project has significantly benefitted from the knowledge and experiences provided by development partners**.** The Decentralization Development Partners Group has been instrumental in facilitating coordination among the different donors and more importantly in sharing lessons learned from different donor-supported programs in Mozambique. This platform has helped the Government and the World Bank to incorporate key lessons in the project design throughout the preparation phase. It has also been instrumental in coordinating support to the decentralization reforms, for instance, in the definition of geographic scope, the design of performance grants, and selecting the best modalities for strengthening capacity of municipal governments. The World Bank has also mobilized a trust fund grant from the Japanese Government to support enhancing the quality of infrastructure investments in the

project. The World Bank team is working in close cooperation with Japan International Cooperation Agency in Mozambique, particularly in the area of municipal solid waste management. Donor's collaboration is also essential to reduce transaction costs on the Government's side and leverage greater resources and know-how to support policy dialogue in a harmonious manner.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

62. **The project will be implemented in close collaboration with key ministries that have specific mandates relevant to the project's objectives and activities.** MAEFP has the mandate to support municipalities and coordinate decentralization policy reforms. MEF has the mandate over intergovernmental fiscal arrangements and local PFM. MOPHRH has the mandate over basic infrastructure, housing, and water resources, including urban development. MTA has the mandate over territorial planning, land and environmental management policies, and rural development. As such, MAEFP will have the overall coordination role across these line ministries and government levels. MOPHRH, in close collaboration with MTA, will have the responsibility for implementing Component 1: Urban Infrastructure and Municipal Services. MEF, in close collaboration with MAEFP, will have the responsibility for implementing Component 2: Decentralization Policy Reforms and Institutional Strengthening.

63. **A PSC will be established after the project is approved to provide overall policy guidance and project supervision**. The PSC will be chaired by the permanent secretary of MAEFP, and it will also comprise the permanent secretaries of MEF, MOPHRH, and MTA. The PSC will be assisted by the national directors and senior staff from each ministry. Finally, the project will be under the overall guidance of the GIDE.

64. **The PIU has already been established with PPA funds.** The PIU will have the necessary autonomy and technical capacity to undertake project management and administrative functions across all components. The PIU comprises a project coordinator, an FM specialist, an accountant, a procurement specialist, an M&E specialist, a social safeguards specialist, and an environmental safeguards specialist. Senior technical advisers will work closely with the PIU to ensure technical quality and smooth coordination between the different components and activities. During implementation, the project will establish project implementation teams in each of the four provinces comprising a coordinator, a social safeguards expert, and an environmental safeguards expert. With the exception of the MPG, and the MFUD, all components' resources and contracts will be managed directly by the PIU, in close coordination with the relevant ministry. Municipalities will manage and report on the use of their fund allocations received from the MPG and MFUD subcomponents.

B. Results Monitoring and Evaluation Arrangements

65. **The reporting and M&E will be based on the agreed Results Framework and monitoring arrangements.** Project reporting and M&E, including social accountability and gender equity measures, will be managed and coordinated by the PIU using information collected from the participating municipalities on a regular basis. The Results Framework will lay out the modalities and frequencies of

collecting key data on results and outcomes, including project progress reports, third-party evaluation studies, and specific baseline and post-intervention beneficiaries surveys. Semiannual monitoring reports will be prepared by the PIU and discussed with the key implementing and beneficiary entities and the World Bank during project support missions. These reports will assess compliance with legal convenants, achievements against the agreed annual work plans, and the project's Results Framework. The PIU will also be responsible for preparing quarterly FM, procurement, and social and enviromental management reports. An in-depth evaluation of project implementation will be undertaken at the midterm review to make any course correction needed.

66. **The project will also incorporate geo-enabling monitoring and supervision applications.** These tools will provide solutions to remotely supervise operations and improve the capacity of the implementing agencies to conduct accountable and well-structured M&E. Moreover, these tools will enable geo-referential data entry, mapping and identifying the locations of subprojects from the ground for various locations and thus integrating the subprojects' mapping aspect, creating a common platform for planning, coordinating, monitoring, accounting, and auditing. These tools will also empower internal and external actors in their oversight over the use of project resources.

C. Sustainability

67. **Sustaining results is a core objective of the project**. The project's investments will have lasting impacts as its design emphasizes strengthening the institutional capacity of municipalities to deliver sustainable urban infrastructure and services. The project approach combines incentives and technical assistance with investments to help strengthen institutional capacity, improve accountability, and increase financial capacity through improved intergovernmental fiscal transfers and greater own-source revenues for municipalities.

68. **A key pillar of sustainability rests on improved organizational and human capacity of the participating local entities.** The technical assistance provided by the project will finance capacity-building activities (methodology manuals, training courses, peer-to-peer learning, and so on) that will strengthen human resources, while providing technical assistance to tackle the challenges in infrastructure design, execution, O&M, and core subnational PFM functions.

69. **Environmental sustainability will also be a key outcome of the project.** The project will support the formulation of territorial planning instruments that incorporate risk mapping and climate resilience considerations. The annual performance grants will also enable municipalities to improve environmental management through investments in drainage and erosion control infrastructure and improvements in solid waste management, including maintenance of drainage canals. This will help reduce climate-related risks and strengthen resilience of local infrastructure to climate change. Improved drainage systems will also protect valuable infrastructure assets in municipalities and reduce runoff damage to soil and vegetation along slopes and coastal areas.

70. **Financial sustainability will also be strengthened by the project.** While improving the intergovernmental fiscal transfer system will create a more transparent, accountable, and needs-based share of national fiscal resources flowing to local entities, enhancement of own-source revenues is key to improved accountability between citizens/taxpayer, their elected representatives in municipalities, and future-elected representatives in district governments. The performance grants in the project will

illustrate how small capital allocations can be used to leverage local-level reform efforts. They will also illustrate the Government's interest in improving municipal FM systems and functions as a necessary condition for decentralized finance.

71. **Sustainability of project-financed infrastructure and services delivery will be promoted by a combination of technically well-designed works, improved supervision, and stronger institutional capacity in O&M**. At infrastructure project management level, the involvement of all the key sectoral agencies will ensure quality control at the highest level. Technical assistance will help municipalities' officials in the design, supervision, and O&M of local infrastructure and services.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

72. **The proposed project will mainly finance public goods.** These public goods comprise infrastructure subprojects that generate net economic benefits and substantial benefits ('positive externalities') to the public. World Bank financing of performance grants is justified given the budgetary constraints of both local authorities and the central government itself. In addition, existing transfers are not adequate to achieve the proposed project's objective of building local capacity and performance, as is evidenced by the fact that the per capita amounts of transfers are too low. As long as capacity and performance challenges among local authorities continue and urban service delivery remains weak, the current system would not be adequate for achieving the proposed objective of increased local government performance in service delivery without the proposed World Bank-supported performance grants.

73. **The proposed project is financing investments that generally provide both quantifiable and nonquantifiable financial and socioeconomic gains and benefits.** The project was evaluated from an economic and financial perspective and completed with sensitivity analysis. From an economic perspective, the interventions under the proposed project were evaluated using cost-benefit analysis. The approach used for each of the components varied as follows: (a) for road interventions, direct benefits were measured as a reduction of travel time and savings on operational costs of vehicles and (b) for municipal finance and land systems, the impact of time savings from reduced transaction costs was measured. From a financial perspective, the interventions that generate revenues—solid waste management and increase of own-source revenues—were evaluated examining what the minimum tariff should be to make the project financially sustainable and what the increase of revenues needs to be to make the Subcomponent 1A interventions viable. The financial results show that the tariff needs to be set at a minimum level to cover O&M cost (about MZN 55 per ton). Otherwise, the operation of the solid waste collection will not be financially viable as the municipalities will not have the fiscal capacity to pay for it. For the investments related to the annual performance grants under Subcomponent 1A and institutional strengthening activities under Component 2, results show that if municipalities average an annual increase of 5 percent in own-source revenue collection, this would yield a 24 percent return and a net benefit of US$41.8 million over the course of 10 years. If municipalities maintain own-source revenue collections at 2017 levels, this yields a return of 16 percent and a net benefit of US$18.7 million. This seems feasible, as municipalities have demonstrated an average increase of 22 percent in own-source revenue under the 3CP.

74. **All components evaluated are economically viable with average return of 22 percent.** Road investments show higher benefits with a return of 28 percent. The expected net benefit of the overall proposed project is US$21 million. See Annex 4 for further details.

Table 2. Results of the Economic Evaluation

Components	**Present Value of Cash-flows (US$, thousands)**			
	Costs	**Benefits**	**Net Benefits**	IRR **(%)**
Roads	1,816	4,790	2,349	28
Municipal finance systems	49,116	67,843	18,727	16
Total interventions	50,932	72,633	21,076	22

Note: IRR = Internal rate of return.

B. Fiduciary

Financial Management

75. **An FM Assessment was carried out in accordance with the Directives and Policy for Investment Project Financing (IPF) and the World Bank Guidance Note on Financial Management in World Bank Investment Project Financing Operations issued on February 28, 2017.** Based on the assessment, the project's proposed FM arrangements have an overall residual FM risk rating of Substantial, which satisfy the World Bank's minimum FM requirements under World Bank Policy and Directive for Investment Project Financing, except for the issues mentioned in the agreed FM action plan.

76. **The PIU established will have overall fiduciary responsibilities for implementation of this proposed project**. The project financial manager, reporting to the PIU coordinator, and supported by one accountant will have overall responsibility for project FM matters. The project financial manager has already been appointed. An experienced accountant will be appointed/deployed no later than three months after the project effective date. The project funds, expenditures, and resources will be accounted for using an automated accounting software to be purchased and installed within four months after the project effective date and the basis of accounting will be financial reporting under cash basis. The disbursements of IDA funds will be done on a transaction basis (statements of expenditures) and the following disbursement methods may be used under the loan: (a) reimbursement, (b) advances, (c) direct payments, and (d) special commitments. The PIU will prepare quarterly unaudited interim financial reports (IFRs) and provide such reports to the World Bank within 45 days of the end of each calendar quarter. The project financial statements (PFSs) will be audited annually by a private company, and the audit report will be submitted to the World Bank no later than six months after the end of each financial year. Financial execution will be done outside the Treasure Single Account (*Conta Unica do Tesouro*). And its implementation will be made by opening in the Central Bank a Designated Account (DA) in US dollars and its auxiliary account in national currency.

Procurement

77. **While municipalities have limited experience with World Bank procurement procedures, the implementation of adequate measures will mitigate associated risk for the project.** This includes (a) recruitment of a qualified procurement officer at the central level, (b) provision of regular training and

coaching to participating municipalities, and (c) regular quality checks to the decentralized procurement. All this reduce the procurement risk to Moderate.

78. **Procurement for the proposed operation will be carried out in accordance with the 'World Bank Procurement Regulations for IPF Borrowers', dated July 1, 2016, revised November 2017 and August 2018 and the provisions stipulated in the Financing Agreement.** Furthermore, the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006, and revised in January 2011, will apply.

79. **Procurement arrangements.** The PIU will have the overall procurement responsibility for the implementation of the project across all components. A PIU, headed by a coordinator, has been established and will deal with all required core functions for the day-to-day management of the project. A procurement specialist has already been recruited with qualifications and experience acceptable to the World Bank and will be responsible for carrying out procurement activities at the central level and overseeing the implementation of activities at the decentralized levels. Furthermore, to ensure that municipalities possess adequate capacity to implement their respective activities, the procurement specialist will provide them with the necessary coaching and training, in coordination with the capacity-building measures planned under the project. The participating municipalities will need to be organized in a way consistent with the requirement for a UGEA since they will apply the local procurement regulations—this requirement is one of the minimum conditions to access performance grants. The capacity of each implementation entity will be continuously monitored during implementation through the APA, to ensure adequate implementation of the project.

80. **The country's current practices for legal vetting of procurement actions may affect the performance of the procurement function of the project.** This needs to be considered in the activities' planning process as substantial delays are occurring throughout the portfolio**.** The requirements of the TA may lead to delays for contract signing and effectiveness, after the completion of the evaluation process and of the contract award. Similarly, the Attorney-General's office reviews contracts before submission to the TA. Furthermore, particularly for the technical assistance contracts, contracts that may be entered with a foreign firm require clearance from the Ministry of Economy and Finance, before authorization for payments abroad can be granted. All these may contribute to delays in implementation.

81. **Advance contracting and retroactive financing**. The procurement for all contracts to be considered for retroactive financing under the project shall be consistent with section V (Paragraphs 5.1 and 5.2) of the Procurement Regulations for Borrowers under IPF dated July 1, 2016 (revised November 2017 and August 2018). The advance contracting will enable the borrower to undertake activities that may not be covered by the PPA and before the performance grants are activated. However, Mozambique shall undertake all procurement at its own risk and any World Bank concurrence on the procedures, documentation, or proposal of award of contract will not commit the World Bank to finance the procurements in question, should the project not be approved by the World Bank's Executive Board of Directors. For all the contracts signed, including operations cost, reimbursement by the World Bank for cost incurred under the project before the signing of the Financing Agreement, as part of retroactive financing, shall not exceed the agreed ceiling in the Financing Agreement. Furthermore, the World Bank Task Team will ensure due diligence through a rigorous, post-effectiveness retroactive financing review if any such expenditures are claimed by the borrower, which will include a technical, fiduciary, and safeguards eligibility post-review, as required and compatible under World Bank policies and procedures

and agreed with the borrower. While expenditure eligible for retroactive financing needs not be fully defined presently, typical expenditures likely to be eligible are those defined as eligible expenditures in the project.

C. Safeguards

82. **Mozambique has a well-developed environmental and social safeguards legislation, but compliance at the local level is a major challenge.** The national environmental and social safeguards legislation includes the national environmental law, defining that all public and private activities with the potential to influence environmental components should be preceded by an environmental assessment to identify possible impacts as well as their mitigation: a process that culminates in environmental licensing. Additionally, the country has well-defined procedures for public hearings. Recent environmental and social assessments, carried out for the implementation of the 3CP, conclude that existing environmental and social management procedures of MTA are adequate for use by the program. Mozambique also has a national resettlement legal framework. However, it has been formulated to mostly address resettlement issues due to mining activities and rural issues and presents gaps related to compensation for raw land, economic impacts, and loss of access to resources.

83. **However, capabilities to manage social and environmental risks are incipient and variable, especially at the local level**. The Government is usually understaffed and underfunded to handle environmental and social aspects of the proposed volume of projects. There are also process gaps where actions are prescribed but accountability is not well defined and there is scarce inspection or similar processes that establish accountability for failure to implement requirements. Resettlement urban areas pose major challenges, particularly as municipalities find it difficult to acquire serviced land in well-located areas. These issues will need to be further examined and, if necessary, will be addressed in the design of the proposed operation and integrated in the RPF for the project.

84. **At this stage, a few no-cost mitigations measures have already been identified**. First, certain types of infrastructure will be put on a 'negative' (or proscribed) investment menu—these will include infrastructure items that are likely to have a significant negative social or environmental impact. Second, risk mitigation will be factored into the program through the performance grants assessment process, which will include some degree of ex ante scrutiny of proposed infrastructure investments. A screening process and procedures to implement the safeguards instruments will be included to complement local requirements, as needed, for the infrastructure component. Consultation requirements will also be mainstreamed into project selection and management processes. A Project Operational Manual is the likely instrument to define the procedures needed to implement the safeguard instruments and establish the corresponding reporting requirements.

Environmental Safeguards

85. **The project is classified as Category B, as the potential environmental impacts are limited in scope and localized.** Although the scope of works will not be defined until after the project is approved, it is known that investments will be small infrastructure interventions. The environmental risk is moderate, as the potential environmental impacts are limited in scope and localized and will be readily addressed with adequate application of the safeguard's instruments. The ESMF, prepared by the Borrower and disclosed on March 1, 2019, covers a proscribed investment menu listing urban infrastructure items

that are likely to have a potential significantly negative social or environmental impact. The ESMF includes budget for capacity building and detailed screening and mitigation procedures to be followed by implementers. The technical assistance activities have been screened and limited to the ones that may not result in significant environmental implications going forward. The project will also support improving policies and as needed legal and regulatory framework on fiscal decentralization and human resources and improving core public sector management functions at provincial, municipal, and district levels. These technical assistance and capacity-building activities may not cause direct environmental impacts but could result in environmental and social implications going forward, entailing risks and potentially inducing adverse impacts.

86. **The following safeguard policies are triggered: OP/BP 4.01 on Environmental Assessment, OP/BP 4.04 on Natural Habitats, OP/BP 4.11 on Physical Cultural Resources, OP/BP 4.12 on Involuntary Resettlement, and Forests OP/BP 4.36.** OP/BP 4.04 on Natural Habitats was triggered because the project encompasses diverse infrastructure construction works that may interfere with natural habitats as well as land planning activities. OP/BP 4.04 on Natural Habitats defines the criteria and management procedures to avoid potential impacts on sensitive biodiversity areas and protected areas. OP/BP 4.11 on Physical Cultural Resources was triggered on a precautionary basis. The project will not support activities in areas with known physical cultural resources. However, the infrastructure construction works are diffuse, carrying the risk of interference with structures of historical, religious, or cultural significance. Forests OP/BP 4.36' was also triggered as a precautionary measure, as some activities under the project may have potential interference on forests natural habitats. No civil works within a river that is classified as an international waterway (under OP 7.50, Projects on International Waterways) or a tributary to such a river will be eligible for funding.

Social Safeguards

87. **The project has a direct impact on social safeguards since it provides funds for the improvement of the provision of basic infrastructure and services at the municipal level.** Under Component 1 MPG and MFUD, the project will transfer resources directly to municipalities 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, municipal markets, and the acquisition of equipment necessary for the maintenance of solid waste management (containers, solid waste transport trucks, and so on). Works with potential environmental and social impacts classified as Category A by World Bank OP 4.01 will not be carried out. The project will also provide support for the revision of some regulations focusing on urban planning and land management and subnational public management finance that may have social and environmental implications, causing future social and environmental risks and impacts.

88. **The Government prepared the Resettlement Policy Framework (disclosed on March 1, 2019) that identifies potential impacts and will recommend measures for the main types of interventions that can be funded under the project.** For each future intervention to be undertaken and involving involuntary resettlement, a Resettlement Action Plan will be prepared together with the engineering projects during the implementation phase of the project. As municipal councils have limited capacity in safeguards, the project will establish a safeguards team in each of the four provinces to provide capacity support and monitor the implementation of environmental management plans and resettlement action plans. Moreover, the municipalities will use the finance provided by the project through the MPG and the MFUD

to hire consultants to help with the preparation of these safeguards' instruments and to involve community organizations in monitoring their implementation.

89. **The GoM prepared an ESMF, in accordance with the OP/BP 4.01,** containing a screening process and procedures to implement the safeguards instruments, as needed, for the urban infrastructure works and the technical assistance activities. Consultation requirements will be mainstreamed into subproject selection and management processes. The ESMF also covers a 'negative' (or proscribed) investment menu, listing the urban infrastructure items that are likely to have a significant negative social or environmental impact. The ESMF, as the other safeguards instruments, were reviewed by the Safeguards Team, released for public consultation, and disclosed by the World Bank.

Grievance Redress Mechanisms

90. **The project will establish a Grievance Redress Service (GRS).** Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level GRS. The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

91. **Moreover, the project will promote transparency, voice, and users' feedback in the participating local entities.** The performance grants system has been designed to provide incentives for increasing transparency in planning and budgeting. The project will support participatory processes for preparing local infrastructure plans, engage the community in monitoring works execution, and promote user-feedback tools to help improve the quality of local services. The project will also promote digital economy to facilitate citizens' voice and participation throughout the project implementation.

V. KEY RISKS

92. **The overall risk rating for the project is Substantial.** Based on similar World Bank supported and donors' projects, despite contributing to building the policy and institutional capacity at the municipal level, significant challenges still prevail. Key risks and proposed mitigation measures are outlined in the following paragraphs.

93. **Political and Governance risk is Substantial**. After some episodes of open violence in 2015/16 in the country's central regions (stronghold of the main opposition party, RENAMO), a process of dialogue started between FRELIMO (in power) and RENAMO and led to an agreement on demobilization and decentralization. The 2019 general and provincial elections were the first in this new configuration through which the assemblies and governors of all provinces were elected. Preliminary results show that FRELIMO, the ruling party, won in all provinces and at the national level. However, the opposition have

quickly challenged the election results due to campaign intimidation and irregularities during vote counting. As in the past, this could reignite political instability and conflict. In 2024, districts will also be included and they will have directly elected assemblies and heads. These constraints on the ground may affect the effective and timely achievement of the Project Development Objective (PDO). The political and governance dynamics will be monitored closely.

94. **Sector Strategies and Policies.** The risk is considered Substantial given the uncertainty surrounding the implementation of the new decentralization policy reforms. Furthermore, with the new government, some time will be required for completing the transition and this may delay the process of decision-making on issues related to implementing decentralization's systems and processes. To mitigate this, the project team will advise the Government based on international good practices and arrange briefing sessions with the new leadership in relevant institutions on the results, approach, and areas of reform that the project may support. The GIDE will also maintain a stronger and harmonized policy dialogue with the authorities.

95. **Technical Design of Project or Program.** The risk is considered Substantial. Performance-based grants have already been implemented in the framework of the 3CP. The effectiveness of this funding mechanism is highly contingent on its design and the context in which it is implemented, and, in some cases, the grant can widen the gap between municipalities. Furthermore, the MFUD subcomponent is a new approach to implement investment projects that can unlock or complement private sector solutions and/or private delivery of urban infrastructure and basic services. This risk will be mitigated through the technical assistance provided for the rollout of these activities, in particular, through (a) PIUs established at the provincial level, (b) the dedicated manager for the MFUD subcomponent, and (c) the institutional development to help meet the minimum conditions and performance conditions of the grant.

96. **Fiduciary.** The overall FM risk rating for the project during preparation is Substantial. The project will provide both incentives through the performance grants and technical assistance to enhance FM capacity, including support to modernize the municipal financing management information systems and to strengthen the capacity of the TA to undertake regular external audits of the participating municipalities. The project will incorporate a supervision application which will help monitor and link financial and physical progress and strengthen fiduciary oversight.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Mozambique
Mozambique Urban Development and Decentralization Project

Project Development Objectives(s)

To strengthen institutional performance and deliver improved infrastructure and services in participating local entities.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
To strengthen institutional performance and deliver improved infrastructure and services.							
Number of direct beneficiaries with improved basic infrastructure and services under the project. (Number)		0.00	0.00	100,000.00	200,000.00	400,000.00	676,569.00
Of which 50% are women (Number)		0.00	0.00	50,000.00	100,000.00	200,000.00	338,285.00
Increased score in the APA averaged across all participating municipalities that qualify for the MPG (Percentage)		0.00	5.00	20.00	40.00		60.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Component 1. Urban Infrastructure and Service Delivery							
People provided with improved access to local roads (Number)		0.00	0.00	50,000.00	100,000.00	200,000.00	300,000.00
Of which 50% are women (Number)		0.00	0.00	25,000.00	50,000.00	100,000.00	150,000.00
Increased financial sustainability of SWM (% of operational costs covered by SWM tariff) accross all municipalities that qualified for MPG (Percentage)		0.00	5.00	20.00	40.00	50.00	60.00
Number municipalities with a new city-wide territorial plans (PEUM or PGU) prepared and approved by municipal council (Number)		0.00	0.00	3.00	6.00	9.00	12.00
Number of municipalities with 1 or more infrastructure sector plans prepared and approved (Number)		0.00	0.00	3.00	6.00	9.00	12.00
% of Maximizing Finance for Urban Development leveraged by private investments (Percentage)		0.00	40.00	60.00	70.00	80.00	100.00
Increase in coverage (% of population) using improved municipal sanitation services (Percentage)		0.00	0.00	5.00	10.00	15.00	20.00
Of which 50% are women (Percentage)		0.00	0.00	2.50	5.00	7.50	10.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Number of municipalities with 50% or more of all land files registered in a land management information system (Number)		0.00	0.00	3.00	6.00	9.00	12.00
Number of Municipalities with 75% or more progress in the implementation of the Covid-19 Action Plans (Number)		0.00	0.00	3.00	6.00	9.00	12.00
Component 2. Decentralization Policy Reforms and Institutional Strengthening							
Increased % of external audit recommendations implemented as an average across all municipalities (Percentage)		0.00	0.00	10.00	25.00	65.00	75.00
Reformed system for Intergovernmental fiscal transfers approved and publically disclosed (Yes/No)		No	No	Yes	Yes	Yes	Yes
FMIS operational in participating municipalities (Number)		0.00	0.00	3.00	6.00	9.00	12.00
Performance evaluation of municipal staff undertaken (Number)		0.00	0.00	3.00	6.00	9.00	12.00
Municipalities meeting the annual own revenue collection's targets (Number)		0.00	0.00	5.00	9.00	12.00	15.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Number of direct beneficiaries with improved basic infrastructure and services under the project.		Bi-annually	Municipalitie s	Sub-project physical execution progress reports	PIU
Of which 50% are women	Breakdown of direct project beneficiary to capture women beneficiaries	Semi-annual	Annual Performance Assessment	Reports	PIU
Increased score in the APA averaged across all participating municipalities that qualify for the MPG		Annually	Annual performance assessment	Independent verification agent that conducts the annual performance assessment.	Ministry of State Administration and Public Service (MAEFP)

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
People provided with improved access to local roads	Number of direct beneficiaries from improved local roads financed under the Project	Semi-annual	Municipal sub-projects execution report	Municipalities will verify the completion of works financed under project.	PIU

Of which 50% are women	Breakdown of direct beneficiaries from roads improvements to measure women beneficiaries	Semi-annual	Annual Performance Assessment	Reports	PIU
Increased financial sustainability of SWM (% of operational costs covered by SWM tariff) accross all municipalities that qualified for MPG	Municipalities with established revenue stream (SWM tariff)	Semi-annual	Municipal reports	Annual Performance Assessment	PIU
Number municipalities with a new city-wide territorial plans (PEUM or PGU) prepared and approved by municipal council	Number of municipalities that have approved one or more of the city-wide territorial planning instruments (PEUM and/or PGU) according to the national territorial planning law.	semi-annual	Annual Performance Assessment	Municipal Reports	PIU
Number of municipalities with 1 or more infrastructure sector plans prepared and approved	Municipal Sector Plan (mobility, SWM, water and sanitation, markets, flood and erosion control)	Semi-annual	Annual Performance Assessment	Reports	PIU
% of Maximizing Finance for Urban Development leveraged by private investments	Relative amount of private investments unlocked or mobilized to the total funds from the Maximizing Finance for Urban Development subcomponent 1B	Semi-annual	MFUD contracts	contracts	PIU
Increase in coverage (% of population) using improved municipal sanitation services	Aggregated (all municipalities) increase (percentage points) of the coverage (population) accessing safely managed	semi-annual	Annual Performance Assessment	Reports	PIU

	sanitation provided by the municipalities (department/entity) as defined by the World Health Organization (WHO) as the use of an improved sanitation facility which is not shared with other households, and where excreta is safely disposed in situ and/or transported and treated off-site. Improved sanitation facilities include flush/pour flush toilets to piped sewer, septic tank or pit latrine; and composting toilet or pit latrine with slab				
Of which 50% are women					
Number of municipalities with 50% or more of all land files registered in a land management information system					
Number of Municipalities with 75% or more progress in the implementation of the Covid-19 Action Plans	Number of municipalities that have implemented 75 percent or more of the priority actions defined in their Municipal Action Plan for Covid19 Response	Semiannua l	Project Infor mation Management System Municipal Performance Assessment	PIU staff update every month the indicator in the Projecto Information Management System Consulting firm undertakes the annual municipal performance assessment	PIU

Increased % of external audit recommendations implemented as an average across all municipalities	External audit reports	Annually	Tribunal Administrativo	Audit report	PIU
Reformed system for Intergovernmental fiscal transfers approved and publically disclosed	Policy document/legislation	Once	MEF and Diario da Republica	Policy/Legislation	PIU
FMIS operational in participating municipalities	Financial Management Information System	Once	MEF and Municipalities	Reports	PIU
Performance evaluation of municipal staff undertaken	Number of municipalities that evaluate the performance of their staff	Annually	MAEFP, Municipalities	Reports	PIU
Municipalities meeting the annual own revenue collection's targets	Number of participating municipalities that meet the annual own revenue collection targets. The collection targets will be set by individual municipality	Annually	MEF, Tribunal Administrativo and Municipalities	Audited Accounts of municipalities and Annual Financial Reports	PIU

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Mozambique
National Urban Development and Decentralization Project

1. **The project will be implemented in close collaboration with key ministries that have specific mandates relevant to the project's objectives and activities.** MAEFP has the mandate to support municipalities and coordinate decentralization policy reforms. MEF has the mandate over intergovernmental fiscal arrangements and local PFM. MOPHRH has the mandate over basic infrastructure, housing, and natural resources, including urban development. MTA has the mandate over territorial planning, land and environmental management policies, and institutional development. As such, MAEFP will have the overall responsibility of facilitating coordination across line ministries and government levels. MOPHRH, in close collaboration with MTA, will have the responsibility for the implementation of Component 1: Urban Infrastructure and Municipal Services. MEF, in close collaboration with MAEFP, will have the responsibility for the implementation of Component 2: Decentralization Policy Reforms and Institutional Strengthening.

2. **The PSC will be established no later than 60 days after the Effectiveness Date of the project to provide overall policy guidance and project supervision**. The PSC will be chaired by the permanent secretary of MAEFP, and it will also comprise the permanent secretaries of MEF, MOPHRH, and MTA. The PIU will be assisted by the Project Coordination Group (PCG), and it will report directly to the PSC. The project will be under the guidance of the interministerial committees, particularly the GIDE.

3. **The PCG has already been established.** The PCG comprises the national directors of MAEFP, MEF, MOPHRH, and MTA. The PCG calls upon other technical units to provide the necessary technical advice on areas related to the decentralization reforms and basic infrastructure and services delivery, urban planning, land and environmental management.

4. **A PIU has been established.** The PIU is responsible for the overall project management, FM, procurement, and social and environment safeguards aspects of the project, across all components. The PIU has the necessary autonomy and professional staff to allow undertaking of the project management and administrative functions. The PIU staff include a coordinator, an FM specialist, a procurement specialist, an M&E specialist, a social safeguards specialist, an environmental safeguards specialist, and an MFUD adviser. Senior advisers from each of the four ministries (MEF, MAEFP, MOPHRH, and MTA) will support the PIU to ensure quality and smooth coordination across the project's components and activities.[13] No later than 30 days after the Effective Date or such later date as the Association may agree, provincial PIUs will be established in each of the four provinces comprising a coordinator, an environmental safeguards specialist, and a social safeguards specialist.

5. **Beneficiary institutions.** The main beneficiaries are the 22 participating municipalities in the provinces of Gaza, Niassa, Zambezia, and Sofala which will receive annual fund allocation from the MPG.

[13] During project implementation, the ministries' advisory needs might be revised according to number of reforms and workload.

Each one will procure, manage, and report on the use of their annual allocation for capital investments and institutional development based on approved annual plans and budgets. The 22 municipalities will also benefit from technical assistance and capacity-building efforts. The project will also benefit any of the 53 municipalities that qualify to receive funds from the MFUD subcomponent. Based on subproject proposals that are selected against the MFUD criteria, the selected municipalities will procure, manage, and report on the use of the MFUD funds. Other beneficiary institutions include the national and provincial government line departments of MAEFP, MEF, MOPHRH, and MTA which will receive technical assistance and capacity building to improve policies, legal and regulatory instruments, and oversight functions.

The reporting and M&E of the project outputs, outcomes, and results will be based on the agreed Results Framework and monitoring arrangements. Project reporting and M&E, including social accountability and gender equity measures, will be managed and coordinated by the PIU using information collected from the local teams in all participating municipalities on a regular basis. The Results Framework will lay out the modalities and frequencies of collecting key data on results and outcomes, including project progress reports, third-party evaluation studies, and specific baseline and post-intervention beneficiaries surveys. A six-month monitoring table and progress reports will be prepared by the PIU and discussed during implementation support missions. These reports will assess achievements against the agreed work plans and the overall PDO. The PIU will be responsible for preparing quarterly reports and updating the work plans on an annual basis, considering the achievements of the project outcomes, the strategic focus of the project, and IDA feedback. Special attention will be given to M&E from the beginning of the project. An in-depth evaluation of project results will be undertaken at the midterm review to make any course correction needed. The objective of the review will be to assess progress and, if necessary, make changes in the project based on additional lessons learned and the realities on the ground. All studies and reports conducted in the framework of the project will be appropriately disseminated according to the World Bank’s Access to Information Policy.

ANNEX 2: Fiduciary Assessment

COUNTRY: Mozambique
National Urban Development and Decentralization Project

A. Financial Management

1. **Background.** An Interim Financial Management Assessment was undertaken to evaluate the adequacy of the project FM arrangements. The assessment was carried out in accordance with the Directives and Policy for Investment Project Financing (IPF) and the World Bank Guidance Note on Financial Management in World Bank Investment Project Financing Operations issued on February 28, 2017. This assessment was updated and finalized during appraisal stage. The overall FM was assessed to be adequate and the risk rating was assessed as Substantial. Some mitigation measures are proposed accordingly.

2. **Country context.** The GoM approved in 2011 the 'Public Finance Vision' to guide the implementation of PFM reform in the long term, which is supported by the World Bank and other development partners.

3. The most recent Public Expenditure and Financial Accountability (2015) concluded that Mozambique has succeeded in consolidating the major improvements in the PFM system recorded in the Public Expenditure and Financial Accountability 2010. These improvements were noted in the areas of budget execution, accounting, reporting, and internal and external audit. Yet the hidden debt scandals undermined confidence in the overall system and brought to the fore shortcomings in the country system, including (a) deterioration in the comprehensiveness of information included in budget documentation and in the effectiveness of collection of tax arrears; (b) shortage of human resources and limited capacity for the key FM functions; (c) weak internal controls, particular at decentralized levels, and limited follow-up on audit issues; and (d) procurement practices continuing to lag behind international good practices.

Risk Assessment and Mitigation Measures

Table 2.1. Risk Assessment and Mitigation Measures

Risk Factors/Description of Risk	Risk Rating	Risk Mitigating Measures Incorporated into the Project Design	Conditions of Negotiations, Board or Effectiveness (Yes or No)	Residual Risk Rating
Inherent risk				
Country level: Shortage of human resources and limited capacities for key FM functions and weak internal controls and auditing may negatively affect the implementation of this proposed project expenditures.	S	The GoM is committed to implement further reforms of the country's PFM with support from the World Bank and other development partners. This operation supports key PFM institutions such as the TA and the General Inspectorate of Finance (*Inspecção Geral das Finanças,* IGF) and some PFM reforms and capacity building at the municipal level.	No	S
Entity level: MAEFP has experience in implementing World Bank-financed project; however, the newly established PIU may not be able to meet the FM requirements of World Bank-financed operations.	S	A new PIU is already established and staffed with qualified and experienced financial manager and an accountant.	Yes. Appointment of project financial manager is a condition of effectiveness.	S
Project level: Project design is relatively complex since it involves several agencies and local entities.	S	Clearly defined FM procedures and funds flows, accountability, and reporting will be documented in the Project Operations Manual (POM). The project will be periodically supervised by the FM Specialist as well as government institutions.	No	S
Control risk				
Budgeting: Weak budget monitoring system which can lead to budget overrun	M	The PIU will produce periodic financial reports comparing planned and actual project expenditures. The budget	No	M

Risk Factors/Description of Risk	Risk Rating	Risk Mitigating Measures Incorporated into the Project Design	Conditions of Negotiations, Board or Effectiveness (Yes or No)	Residual Risk Rating
		monitoring procedures will be documented in the PIM. Qualified FM staff will be recruited.		
Accounting: e-SISTAFE may not be able to process and report on transactions properly.	S	An automated accounting package will be used to account for project funds, expenditures, and resources.	No	M
Internal control: Weak control environment resulting from poor enforcement of existing regulations, weak management oversight, and inadequate internal audit function	S	A POM including FM procedures will be developed. It will include accounting records, internal controls, and financial reporting at the municipal level. In addition, the project will be closely monitored to comply with the Government's Financial Administration Manual.	No	S
Funds flow: Delays in funds flow may affect implementation of the project.	S	The disbursement arrangements will be documented in the PIM. The funds flow will follow the government system. The World Bank will provide support to the implementing agencies through the implementation.	No	S
Financial reporting: Delays in submission of reports and staff not experienced in reporting for World Bank-funded projects.	S	The automated accounting package will enable timely generation of financial information. The PIU will be staffed with qualified and experienced financial manager and accountants.	No	M

Risk Factors/Description of Risk	Risk Rating	Risk Mitigating Measures Incorporated into the Project Design	Conditions of Negotiations, Board or Effectiveness (Yes or No)	Residual Risk Rating
Auditing: Delays in submission of audit reports, delays in implementing the recommendations of the Management Letter, and delays in the verification of achievement of results/DLIs.	S	Acceptable accounting system and qualified FM staff will be in place, allowing timely production of the financial statements. Follow-up of audit findings will be done by the PIU as well as World Bank FM staff during implementation support mission.	No	M
Overall FM Risk	S			S

Note: S = Substantial; and M = Moderate.

FM Action Plan

4. To establish an acceptable control environment and to mitigate FM risks, the following measures should be taken by the due dates indicated in the table 2.2.

Table 2.2. FM Action Plan

No.	Action	Responsibility	Completion Date
1	Appointment of qualified and experienced project financial manager	PIU/MAEFP	By effectiveness
2	Development of the POM including FM procedures	PIU/MAEFP	By effectiveness
3	Appointment of qualified and experienced project accountant	PIU/MAEFP	No later than three months after project effectiveness
4	Purchase and installation of automated accounting software for the project	PIU/MAEFP	Within four months after effectiveness

FM Arrangements

5. **Budget.** Budgeting, budgetary control, and budget revisions will follow national procedures requiring that the project budget is inserted as part of the government budget and approved by the parliament. Concerning the performance grants, these should be inscribed in the budget for each participating municipality. The PIU will have overall responsibility for preparing annual work plans and budget. In coordination with participating line ministries and municipalities, the PIU will lead preparation of annual work plans and budgets, following the budget preparation cycle of the GoM. The grant budgets of the eligible municipalities will be shared with the PIU. The PIU will ensure that an adequate project budget monitoring system is in place, including at the municipal level in collaboration with the Provincial Directorate of Planning and Finance, and this will be described in the PIM.

6. **Staffing.** The PIU will be responsible for fiduciary aspects of the project. The PIU will be staffed with a financial manager and one accountant. The overall responsibility of project FM matters rests with the project's financial manager to be appointed by project effectiveness. The project accountant should be recruited within three months after project effectiveness. The participating municipalities will be responsible for managing the funds received through MPG and the MFUD. Municipal officers will receive technical assistance and training to undertake their fiduciary functions from the MEF (both central and provincial) and the PIU. These functions include maintaining adequate accounting records and financial reports of funds received and cost incurred by municipalities on eligible expenditures for goods, works, and services.

7. **Accounting.** The implementing agency will account for all project funds, expenditures, and resources using an automated accounting package to be purchased and installed within four months after project effectiveness. The PIU will request a waiver from MEF to not make use of the Government's Integrated Financial Management Information System to ensure that there are no delays or any other issues which will affect the timely implementation of the project due to the complexity of the project. This procedure has been used for selected World Bank-financed operations in Mozambique portfolio. As municipalities currently do not use e-SISTAFE, during project preparation an assessment of municipal finance management capacity and systems is being undertaken to inform the project activities to strengthen the municipal FM information system in the participating municipalities.

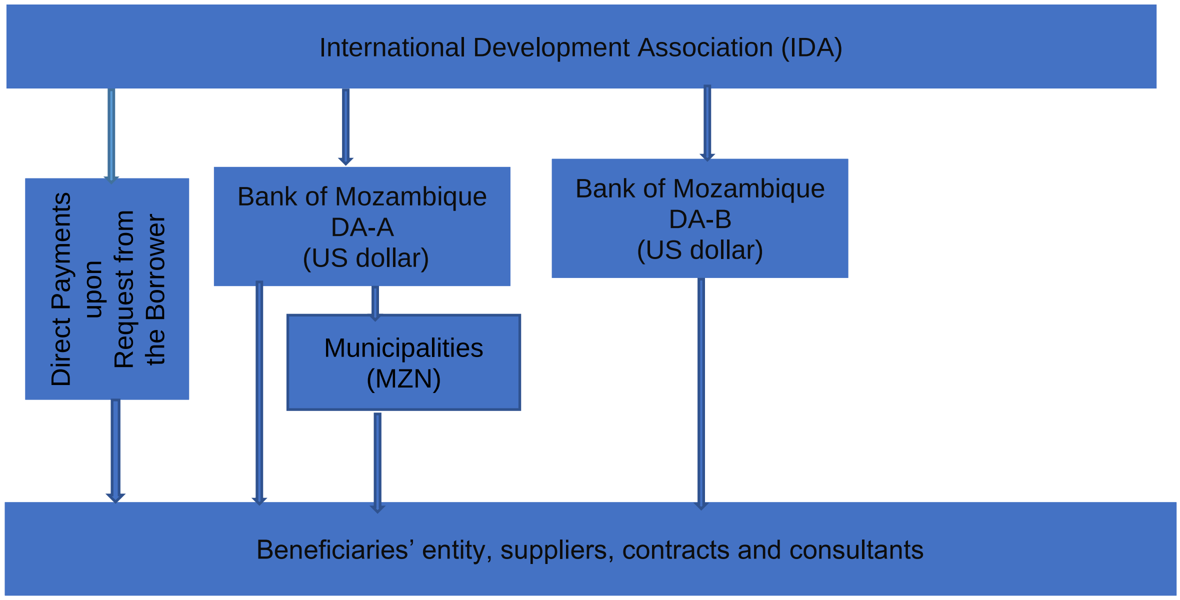
8. **Internal control.** Internal controls and accounting procedures at the central, provincial, and district levels will similarly be based on national procedures on day-to-day operations, defined in the *Manual de Administração Financeira* and PIM. The internal audit unit, IGF, based at MEF has the responsibility for internal audit functions across the entire government, including financial and administrative autonomous government bodies. For this project, alternatives measures such as regular supervision through desk review and field visits (that include expenditures and asset reviews) should be carried out by the World Bank to ensure that the implementing agency is maintaining adequate systems of internal controls and key procedures are complied with. APAs will also assess compliance of participating municipalities with Government's requirements for FM (submission of budget, submission of financial accounts, and so on).

9. **Financial reporting.** The PIU will prepare quarterly IFRs for the project in form and content satisfactory to the World Bank, which will be submitted to the World Bank within 45 days after the end of the calendar quarter to which they relate. At the end of each fiscal year, the PIU will also produce annual PFSs in accordance with Financial Reporting under Cash Basis of Accounting. The formats and contents of the IFRs and PFSs will be discussed and agreed with the PIU. In addition, the PFS's components will be outlined in the terms of reference for audit of this proposed project.

Disbursement

10. **Funds flow**. The PIU will open and manage three DAs, on behalf of MEF, MOPRHR, and MAEFP, in US dollars with the Bank of Mozambique (Central Bank) to receive funds from IDA. Funds in the DAs will be used to make payment of eligible expenditures and transfer to municipalities once the eligibility criteria for grant is met. Each ministry will prepare payments vouchers to be submitted to the PIU for settlement to the providers of goods and services. Figure 2.1 shows the funds flow mechanism for the project activities.

Figure 2.1.Project Funds Flow



11. All transfers from DAs to municipalities and resident beneficiaries (suppliers, contractors, consultants, and others) will be strictly in local currency.

12. **Disbursement arrangements.** Disbursement of IDA funds will be done on a transaction basis (Statement of Expenditures). Upon effectiveness of the grant, an initial advance up to the ceiling of the DA (to be indicated in the Disbursement and Financial Information Letter [DFIL]) and representing four months forecasted project expenditures payable through the DA will be made into the DA. Subsequent disbursements will be made on a monthly basis against submission of the Statements of Expenditures or other documents as specified in the DFIL. The option of disbursing the funds through direct payments from IDA for payments above the threshold to be indicated in the DFIL will be available. Options for the use of special commitments and reimbursements will also be available.

13. Concerning the grants to municipalities, payments will be made once the eligibility criteria for the grant is met; quarterly financial reports will document actual costs incurred on eligible expenditures for goods, works, and services financed through performance-based grants.

14. The PFSs will be audited in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board. The audit report together with the Management Letter will be submitted to IDA within six months after the financial year-end, that is, June 30 of each following year. The costs incurred for the audit will be financed under the project. Since the country's TA has the mandate to audit all government funds and donor-financed projects, it is desirable that the project is audited by the TA. However, since the TA has not been able to carry out municipal financial audits on a regular basis, the PIU may recruit a private firm for the audit of the project and participating municipalities to mitigate risks related to delays in submission of audit reports. If conditions are in place and acceptable

to the World Bank, the TA may undertake the project audits and the municipal financial audits. In the case of project funds allocated to the TA, alternative procedures will be applied (for example, a review by a consultant or audit by a private firm).

15. **Effectiveness condition.** There is no FM condition of effectiveness.

16. **Dated covenants.** The following FM actions are dated covenants: (a) appointment/deployment of a qualified and experienced project accountant and preparation and adoption of the PIM including FM procedures within three months after the project effective date and (b) purchase and installation of an automated accounting package and appointment of external auditors should be finalized within four months after the project effective date.

17. **Implementation support plan.** Based on the current overall residual FM risk of this operation, the project will be supervised at least twice a year, in addition to routine desk-based reviews, to ensure that project's FM arrangements operate as intended and that funds are used efficiently for the intended purposes.

B. Procurement

18. **Applicable procedures.** Procurement for the proposed operation will be carried out in accordance with the 'World Bank Procurement Regulations for IPF Borrowers', dated July 1, 2016, revised on November 1, 2017, and August 2018 and the provisions stipulated in the Financing Agreement. Further, the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006, and revised in January 2011, will apply.

19. **Procurement strategy.** A Project Procurement Strategy for Development (PPSD) was developed during preparation to inform the applicable procurement arrangements during implementation. The outcome of the PPSD will be a Procurement Plan that will be prepared and recorded by the borrower in the World Bank's Systematic Tracking of Expenditures in Procurement (STEP). The PPSD will only cover the activity to be managed at the central level, as this will be identified during project preparation. Overall, it not anticipated that the procurement activities to be implemented be complex. Some international interest may be created in some of the technical assistance activities.

20. **Procurement arrangements.** A procurement officer was already recruited for carrying out procurement activities at the central level and overseeing the implementation of activities by municipalities. Furthermore, to ensure that municipalities possess adequate capacity to implement their activities, the procurement officer will provide them with training, in coordination with the capacity-building measures planned under the project. The municipalities will need to be organized consistent with the requirement for a UGEA since they will apply the local procurement regulations—this requirement is one of the minimum conditions to access performance grants (see the municipal tables in Annex 3).

21. **Procedures for selection of consultants.** Quality and cost-based selection will be the main method for the selection of firms for technical assistance.

22. **Procedures for goods.** Goods, including vehicles, office equipment and stationery, IT equipment and office furniture, communications equipment, will be procured generally through request for

quotations. Occasionally, if the estimated amount exceeds US$100,000, procurement may be done through an open competitive procedure, the request for bids , consistent with the Mozambique Procurement Regulation (Decree 5/2016 of March 8, 2016) and limited to the local market. No international competition will be carried out.

23. The Procurement Plan will be prepared once the PPSD is completed and will be managed through the World Bank's tracking system, STEP, including the periodic updates to it.

24. **Review by the World Bank of procurement decisions.** Table 2.3 indicates the initial values for prior review by the World Bank. All activities estimated to cost below these amounts shall be treated as post review and will be reviewed by the World Bank during the Implementation Support Mission under a post-procurement review exercise. Direct Contracting/Single Source Selection will be subject to prior review only for contracts estimated to cost more than the amounts indicated in table 2.3. The World Bank may, from time to time, review the amounts, based on the performance of the implementing agencies.

Table 2.3. Prior Review Thresholds

Procurement Type	Prior Review Threshold (US$)
Works	5,000,000
Goods and non-consulting services	1,5000,000
Consultants (firms)	500,000
Individual consultants	200,000

25. **Assessment of national procedures.** The Mozambique Procurement Regulation, Decree 5/2016 of March 8, has been assessed as required under the World Bank's Procurement Framework. The assessment indicated that the country's regulations are generally consistent with international best practices for the following reasons: (a) there is adequate advertising in national media, (b) the procurement is generally open to eligible firms from any country; (c) contract documents have an appropriate allocation of responsibilities, risks, and liabilities; (d) there is publication of contract award information in local newspapers of wide circulation; (e) the national regulations do not preclude the World Bank from its rights to review procurement documentation and activities under the financing; (f) there is an acceptable complaints mechanism; and (g) there is maintenance of records of the procurement process.

26. However, the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights

27. With the incorporation of the above provision, the Mozambique Procurement Regulation will be acceptable to be used under those procurements not subject to the World Bank's prior review, as per the thresholds indicated in table 2.3 or any updates indicated by the World Bank in the Procurement Plan.

ANNEX 3: Performance Grants

COUNTRY: Mozambique
National Urban Development and Decentralization Project

1. This activity will support eligible municipalities through performance-based grants that will finance urban infrastructure and basic services investments and institutional development. The grants provided in this subcomponent are designed to complement the basic design of the GoM's system of intergovernmental transfers to municipalities (general purpose grants [FCA] and capital grants). GoM acknowledges the need to reform its current transfer system, which suffers from various shortcomings.[14] Due to the shortcomings of the existing transfer system, whose reform, supported by this project, is only starting, the performance grant will not employ the allocation formula of existing GoM grants, and will be treated as a project grant with the expectation that its performance focus will produce a demonstration effect that could later on be scaled up at the national level.

Per Capita Formula

2. Several options have been analyzed in determining the horizontal structure of the grant. The first option was to construct a basic allocation formula based on urban infrastructure needs. However, it was determined that establishing the need for infrastructure would require data on access to services that is currently not available. This option would also require a complex formula, thus possibly making it less transparent and more complex to calculate at this point. The second option is to base the allocation exclusively on the size of the population of the local entities. The exact size of the per capita allocation would then depend on the size of the annual grant pool and the total population of each local entity eligible for the performance grant. Official census data from 2017 have been used to calculate grant amounts for the participating municipalities.

Geographic Scope and Sequencing

3. The project will support 22 municipalities in Gaza, Niassa, Zambezia, and Sofala. This includes:

Table 3.1.

Gaza	Niassa	Zambezia	Sofala
Xai-Xai	Lichinga	Quelimane	Dondo
Chibuto	Cuamba	Alto Molócue	Gorongosa
Chókwè	Mandimba	Gurue	Marromeu
Macia	Marrupa	Maganja da Costa	Nhamatanda
Manjacaze	Metangula	Milange	Beira
Praia do Bilene		Mocuba	

[14] *Horizontal Funds Distribution to Subnational Government in Mozambique*, Report No: AUS0000186.

Annual Grant Allocation

4. Grants are allocated based on an APA. The assessment measures municipal performance against two sets of indicators: (i) minimum conditions; and (ii) annual performance indicators. During the first grant cycle, only minimum conditions are assessed, and eligible expenditures include infrastructure investments and institutional development. Municipalities that do not meet minimum conditions will receive technical assistance for institutional development to help meeting the minimum conditions. During the first year, there will be no cap on institutional development expenditures. In the first-year performance indicators will only be reviewed to establish a baseline. From year 2, performance indicators will also be assessed, and grant allocation amounts will therefore correspond to the performance against these two sets of indicators. From year 2, no more than 10 percent of the performance grant can be used to finance institutional development expenditures.

Minimum Conditions and Performance Indicators

Minimum Conditions

5. To become eligible to access the performance grants, municipalities are required to meet a set of minimum conditions. This requirement is to ensure that funds transferred to municipalities are properly used and in compliance with the Government and the World Bank fiduciary and safeguards requirements. They are necessary to ensure that the funds are used effectively, efficiently, sustainably and with integrity. Only those municipalities that fulfill all minimum conditions receive their basic allocation; those which do not comply with the minimum conditions will not receive this allocation, but still can benefit from project's institutional development support to meet minimum conditions the following year.

All Grant Cycles

- Grant Participation Agreement (GPA) signed that confirms the willingness to participate in the project and to comply with Project implementation conditions, including fiduciary, safeguards, and technical aspects, is signed.
- Annual plan and budget approved including project grant investments.
- Existence of the UGEA in accordance with the legal framework.

Grant Cycle Year 2 onwards

- Grants funds used in accordance with the GPA.
- At least 50 percent of previous FY's performance grant allocation committed (contracts signed)
- Final external audit of municipal accounts for the previous fiscal year has no adverse or disclaimer opinion

Performance Indicators

6. Starting on Year 2 of the project, performance grants will be scaled up based on the results from the APA. By doing so, the performance grants will enhance local government institutional performance for improving basic infrastructure and services, and core subnational PFM. During the COVID-19

pandemic, the APA will also assess and incentivize municipalities to implement the Municipal Action Plan for COVID-19 Response to reduce the economic and health impacts. The MPG Manual will present the detailed baseline, annual and end-of-project targets, and allocation formula (criteria, weightings and scoring systems). Performance criteria will be reviewed during the midterm review.

Grant Financing

7. The total funding of the performance grant will be US$52 million. The annual allocation for each full grant cycle will be approximately US$6 million for Year 1 and Year 2, and US$20 million for Years 3-4.[15] The average per capita per year is approximately US$9.3.

Table 3.2. Grant Financing for Years 1-4

	Municipality	2017 Census	Year 1	Year 2	Year 3	Year 4	Total
1	Marrupa (M, Vila)	4,940	13,786	13,786	45,954	45,954	119,479
2	Praia do Bilene (M, Vila)	11,624	32,439	32,439	108,130	108,130	281,139
3	Mandlakaze (M, Vila)	12,695	35,428	35,428	118,093	118,093	307,042
4	Metangula (M, VIla)	16,922	47,224	47,224	157,414	157,414	409,276
5	Maganja da Costa (M, Vila)	23,443	65,422	65,422	218,075	218,075	566,994
6	Mandimba (M, Vila)	36,331	101,389	101,389	337,963	337,963	878,704
7	Gorongosa	39,070	109,033	109,033	363,442	363,442	944,949
8	Nhamatanda	49,967	139,443	139,443	464,810	464,810	1,208,505
9	Milange (M, Vila)	51,016	142,370	142,370	474,568	474,568	1,233,876
10	Alto Molócué (M, Vila)	51,830	144,642	144,642	482,140	482,140	1,253,563
11	Macia (M, Vila)	52,405	146,247	146,247	487,489	487,489	1,267,470
12	Marromeu	60,531	168,924	168,924	563,079	563,079	1,464,006
13	Chokwé (M, Cidade)	67,954	189,639	189,639	632,131	632,131	1,643,539
14	Chibuto (M, Cidade)	72,605	202,619	202,619	675,396	675,396	1,756,029
15	Gurué (M, Cidade)	85,975	239,930	239,930	799,768	799,768	2,079,396
16	Dondo	100,516	280,510	280,510	935,033	935,033	2,431,086
17	Mocuba (M, Cidade)	115,021	320,989	320,989	1,069,963	1,069,963	2,781,905
18	Cuamba (M, Cidade)	125,235	349,493	349,493	1,164,977	1,164,977	3,028,941
19	Xai-Xai (M, Cidade, Capital)	132,884	370,839	370,839	1,236,131	1,236,131	3,213,940
20	Lichinga (M, Cidade, Capital)	200,030	558,224	558,224	1,860,745	1,860,745	4,837,937
21	Quelimane (M, Cidade, Capital)	246,915	689,065	689,065	2,296,885	2,296,885	5,971,900
22	Beira (M, Cidade, Capital)	592,090	1,652,345	1,652,345			3,304,690
		2,149,999	6,000,000	6,000,000	20,000,000	20,000,000	52,000,000

8. In Year 1 and 2, the US$6 million allocation will be based on minimum conditions only. Municipalities that fulfill these minimum conditions will receive a grant, which they can use to build their capacity and finance local infrastructure and services. From Year 3 onwards, a full performance assessment of will be conducted each year. For those municipalities that meet minimum conditions, the US$20 million annual allocation for Year 3 and 4 will be distributed based on 30 percent of the eligible per capita grant amount, and up to 70 percent of the eligible per capita grant amount calculated based on the annual score relative to the annual target in the performance assessment. For Years 2-4, municipalities can use their annual grant allocation to build their capacity (limit to 10 percent of total annual grant allocation) and to finance local infrastructure and services. Those municipalities that do not meet

[15] Beira is currently receiving support from other WB projects following Idai. However, given that these resources may not be sufficient to respond to Covid-19, Beira will be supported by the performance grants for Years 1 and 2.

minimum conditions will still benefit from the institutional development support provided by the project to help accessing the funds in the subsequent years.

Reallocation of Funds

9. Disbursement from the project to the municipalities, whose amount will be determined by the minimum conditions and performance indicators, will be made at the beginning of the fiscal year. However, it is likely that the overall allocation for each grant cycle will not be used fully, as this would entail all municipalities to qualify for the minimum conditions and achieve the highest possible scores every year. As such, the unallocated amounts (balance from planned allocation minus the actual allocation) after every year grant calculation will be automatically roll-over into the pool of funds for the subsequent annual cycles. In other words, for cycles 2, the unallocated performance funds will roll over to the pool of funds for cycle 3. And in cycle 3, it will roll over to the pool of funds for cycle 4. The unallocated amount of the last cycle (4) after the calculation of the top-up from the performance indicators will be appropriated into the project, and it will be allocated for activities agreed by the Government and the World Bank.

Eligible Expenditures

10. Municipalities can use their performance grants to finance a wide range of urban infrastructure, municipal services improvements, and institutional development. As part of the urban infrastructure and municipal works, it is considered eligible in addition to the costs of the works and equipment's, costs related to design (ex. technical and feasibility studies, engineering design, safeguards studies, licensing and approval costs), as well as costs to contract independent works supervision. In addition, the grants could be utilized to cover eventual subproject costs related to compensation and resettlement of project affected persons, excluding land acquisition.

11. The municipalities can utilize the performance grants for institutional development activities, particularly those that enable them to meet the performance indicators and therefore quality for higher performance grants in subsequent years.

12. However, there will be a cap of 10 percent for institutional development cost from year 2 onwards. In Year 1, eligible municipalities can spend performance grants to finance urban infrastructure and municipal services improvements, and institutional development activities with no caps in either category of expenditures. From Year 2 onwards, institutional development expenditures will be capped at 10 percent of the total grant amount.

13. The proposed use of the performance grants will be screened against the eligible and ineligible expenditures. They will also be assessed against social and environmental safeguards considerations as specified in the ESMF and RPF, and against economic and technical feasibility. Particularly emphasis will be given to the use of the performance grants that have high impact in addressing poverty and vulnerability, as well as that contributes to climate adaptation and mitigation.

14. The table below provides an indicative list of positive and negative expenditures for institutional development activities.

Table 3.3. Capital and O&M Expenditures - Eligible and Ineligible

Sector	Eligible Expenditures
Roads and Transport	• Roads, sidewalks and pathways rehabilitation/upgrading: Grading, graveling, brick paving, tarmac for which the municipality is responsible • Streetlighting, particularly use of energy efficient and renewable sources. • Culverts • Small Bridges • Minibus stands and bus stops (for example, minibus parking areas for approximately 25 vehicles) • Taxi stands • Truck stands • Public car parking • Other road-related infrastructure (street furniture, vending platforms, signage)
Water and Sanitation	• Water systems rehabilitation/upgrading for which the municipality is responsible (category B or C only) • Sanitation systems for which the municipality is responsible (category B or C only) • Rehabilitation/construction of water fountains • Public toilets
Solid waste management	• Dumpsite rehabilitation and Improved landfills (Category B or C only), particularly to mitigate climate impacts. • Waste collection and recycling equipment (tractors, skips, separation)
Drainage and Erosion Control	• Drainage and erosion control systems for which the municipality is responsible, and that contributes to increase climate resilience (category B or C only) • Canals and culvert (along/under roads, in micro-basins, and so on) • Retention areas that contributes to increase climate resilience
Markets and Public Space	• Local markets (structures and equipment) • Street vendor stalls and support structures (bathrooms, storage) • Sports fields, recreational, cultural and community facilities • Public parks and green areas
Health, education and administrative facilities	• School classroom construction/rehabilitation • Basic health center construction/rehabilitation • COVID-19 prevention and reduction equipment and material
Project Management Costs	• Expenditures related to the preparation and supervision of infrastructure subprojects (planning, design, licenses, environmental studies, RAPs, and supervision)
Non-eligible expenditures	
Non-eligible expenditures: - Religious activities - Staff/officials houses - Transport for staff/officials - Political activities, campaigns, parties - Private goods and businesses (goods which benefit 1 or few persons <25) - Private business companies - Finance and credit schemes - Recurrent costs (for example, salaries, utilities, and the like) - Projects outside the legal mandate of municipalities - Projects with unsettled land issues - Land acquisition	

In addition, the following exclusionary criteria apply to works financed with the PG: - Works involving relocation of more than 20 households; - All category A investments; - Activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas. These are further detailed in the ESMF and RPF.

15. The investment menu above explicitly excludes possible high-risk activities. The infrastructure investments which will be supported by the Program will remain at the local level, restricted to categories B or C, and the procedures for preparing projects will include criteria in the Environmental and Social Management Manual to screen for significant negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. Projects with these types of impacts are excluded from financing with the performance grant.

Table 3.4. Institutional Development - Eligible and Ineligible Expenditures

Functional Area	Eligible Expenditures
Municipal Response to COVID-19	- Implementation of Municipal Emergency Operational and Management Center and Continuity Plan - Monitoring the spread and impact of COVID-19 in each municipality - Slowing and reducing transition in urban areas - Protection on high risk groups - Strengthening institutional capacity of key municipal services, including basics health, sanitation and social assistance, and municipal police - Expanding community outreach and communication - Strategies to mitigate the economic and social impact
Territorial planning and land management	- Territorial planning technical assistance, equipment, software, training, and data gathering - Land management and modernization technical assistance, equipment, software, training, and data gathering
FM and procurement	- Training and dissemination of information - Bidding documents and dissemination - IT systems for FM and connections to central systems
Human resource development and performance evaluation	- Institutional development plan design - Training in core public sector management functions - Individual and entity performance evaluation
Consultation and participation	- Support to community radio, citizen budget, dissemination of key public information - Support to local participatory forums - Workshops and consultative meetings between municipalities, civil society, community and private sector - Information sessions to raise awareness of women’s rights to identify priority urban services and to articulate their interests in land
Economic and social development	- Social and economic assessment and studies
Own-source revenue	- Development of revenue databases

	- Development of modernized billing systems - Street and property addressing - Property valuation updates - User fee analyses - Technical assistance to set up own-source revenues units/systems
O&M	- Asset mapping and inventories - Maintenance costing analyses
Resilience and climate change/disaster risk management	- Climate change impact assessment - Disaster risk assessment - Risk map - Emergency response plan
Local Infrastructure and Services Delivery	- Technical assistance to prepare/revise simplified sector plans (that is, solid waste, transport, markets) that include gender considerations and Local regulation (*posture*) - Technical assistance to prepare pre-feasibility studies, engineering design, and bidding documents. - Technical assistance to support supervision and assessment of works execution. - Technical assistance on improving O&M of service delivery
Other	- Training and technical assistance in the above areas
Ineligible expenditures	
- International travel and associated costs - Long term training costs (for example, university degree programs) - Recurrent costs (for example, salaries, utilities, and the like) - Official and private vehicles - Activities outside the legal mandate of municipalities	

Reporting, Assessment and Oversight Procedures

16. The annual assessment of the municipalities will be contracted from a reputable private sector firm to ascertain the level of annual performance (or performance award amount). The basis of this assessment will be the Program Performance Indicators. Verification of the proper and timely execution of the annual assessment will be done. The robustness of the annual assessment will also be checked through an annual sample audit of the annual assessment which will be undertaken as part of the Bank program supervision. The APA starts every year in February with field work reviewing the performance of the municipalities in the previous fiscal year. Preliminary results will be shared with the World Bank in July latest in order to undertake an independent quality assurance review. Final results will be disseminated to the municipalities in September of each year.

Table 3.5. Municipal Performance Indicators

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
THEME 1: URBAN INFRASTRUCTURE AND SERVICE DELIVERY (maximum score: 50 points)		
Improved municipal response to COVID-19 (max 7 points)	1 point for each priority in COVID-19 response implemented	Municipal Emergency Operational and Management Center and Continuity Plan operational

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
		Monitoring the COVID-19 spread and impact Actions to slow and reduce transition in high risk areas Actions to protect high risk groups Actions to strengthen key municipal services, including basics health, sanitation and social assistance, and municipal policy Targeted community outreach and communication Actions to mitigate the economic and social impact though support to local SMEs, informal economy, and labor-intensive infrastructure and services.
Improved municipal infrastructure and services delivery planning **(max 5 points)**	2 points for each sector plan which incorporates gender and climate considerations that is approved and published	Municipal Mobility and Roads Plan approved and published Municipal Water and Sanitation Plan approved and published. Municipal Flooding and Erosion Control Plan approved and published Municipal Solid Waste Management Plan approved and published Municipal Markets and Public Spaces Plan approved and published
Improved access to urban infrastructure and basic services **(max 10 points)**	Percent increase in the population with improved access to all seasonal local roads with streetlights 2 points if at least 5% increase compared to previous year and at least 70% of subproject women beneficiaries express satisfaction with quality in design and	Number of people with access to all seasonal roads

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
	implementation of these roads	
	Percent increase in the population with access to safe water and improve sanitation 2 points if at least 5% increase compared to previous year and at least 70% of subproject women beneficiaries express satisfaction with quality in design and implementation of safe water and improved sanitation	Number people provided with access to safe water and improved sanitation services, including households connected to the water and sewer network and/or households using a safely managed onsite water and/or sanitation facility
	Percent increase in the population covered by solid waste collection services which contributes to reducing, reusing, and recycling 2 points if at least 5% increase compared to previous year and at least 70% of subproject women beneficiaries express satisfaction with quality in design and implementation of waste collection services	Number of residents in neighborhoods with waste collection at least 2 times a week.
	Percent increase in the population living in areas provided with flooding and erosion control that increases urban resilaince 2 points if at least 5% increase compared to previous year and at least 70% of subproject women beneficiaries	Number of residents living in areas provided with flooding and erosion control

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
	express satisfaction with quality in design and implementation of flooding and erosion control measures	
	Percent increase in the population with access to municipal markets with streetlights 2 points if at least 5% increase compared to previous year and at least 70% of subproject women beneficiaries express satisfaction with quality in design and implementation of access to municipal markets	Number of residents living within 1km of a municipal market
Improved O&M of urban infrastructure and basic services **(10 points max.)**	% increase of solid waste management (SWM) operational costs covered by solid waste collection fees 5 points if at least 5% increase compared to previous year	Annual municipal expenditures in SWM services (waste collection, street cleaning, drainage canals cleaning, landfill management, recycling, and so on) Annual municipal revenues SWM tariffs
	% increase of local roads maintenance covered by parking and vehicle registration fees 5 points if at least 5% increase compared to previous year	Annual municipal expenditures in local roads maintenance Annual municipal revenue from vehicle parking and licensing fees
Urban Planning **(max: 8 points)**	*PEUM*, within period of the validity of 10 years 2 points	PEUM reflecting the territorial planning regulations. Assembly minutes approving statutory plan Submission of PEUM to MTA for technical review The period of coverage should be in the plan and APA Consultant should check the expiry

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
		date to see if the plan is "up-to-date".
	PGU, within period of the validity of 10 years and incorporates findings from the infrastructure and service delivery sector plans (for mobility and roads, water and sanitation, flooding and erosion control, solid waste management, and markets and public spaces) If done: 3 points	PGU reflecting the territorial planning regulations. Council minutes approving statutory plan Submission of PGU to MTA for technical review The period of coverage should be in the plan and APA Consultant should check the expiry date to see if the plan is "up-to-date".
	Percent of municipal territory covered with *PPs* > 75 % of territory: 4 points 50-75% of territory: 2 points 25-50% of territory: 1 points	PPs reflecting the territorial planning regulations. Council minutes approving statutory plan Submission of PPs to MTA for technical review
Municipal Land Management (max: 10 points)		
	Municipality DUAT posture approved by the Municipal Assembly with DUAT tariff revised in the last 5 years. If done: 2 points	Municipality DUAT posture revised and approved by the Municipal Assembly. (Assessment team should check the approval date to see if the posture and tariff DUAT rate is "up-to-date".
	Municipal Land Management System modernized 4 point to having 75% of more of all the land files/registers enumerated; 4 point for having migrated 50% or more of all land files/register	No of enumerated land registration files/registers in the municipal land cadaster and organized in a digital database. No. of land files/registered migrated into a land information management system

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
	from the physical land register to a Land Management Information System	
		-
THEME 2: MUNICIPAL PUBLIC FINANCE AND ADMINSTRATION **Maximum score: 50**		
Planning and Budgeting **(max: 10 points)**		
Budget credibility – expenditure outturn compared to original approved budget –	If done: 5 points	Review and compare budgets and actuals
Preparation and approval of a multiyear plan and budget (Plano fiscal pluriannual)	If done: 5 points	Multiyear Plan and Budget
FM **(max: 10 points)**		
Quarterly financial reports submitted to MEF within the required timeframe	If 4 latest quarterly reports submitted in time: 5 points	- Last 4 quarterly reports - Evidence of submission
Last Administrative Court audit recommendations implemented within the timeframe	If 100% followed up or if there were no recommendations: 3 points	- Review of the last audit report -Review of evidence of how it has been followed-up
Last IGF internal audit recommendations implemented within the timeframe	If 100% followed up or if there were no recommendations: 2 points	- Review of the last internal audit reports. - Review of evidence of how it has been followed-up
Procurement **(max: 5 points)**		
Procurement decisions published and disseminated	If decisions are published: 5 points	- Evidence of publication of tender on public board and media of results including purpose, contractor and value (review a sample of 3-4 tender processes)
Own-Source Revenues **(max: 15 points)**		
Increase on previous year revenue	> 20%: 15 points > 10-20%: 10 points > 5-10%: 5 points 1-5%: 2 points	- Review of revenue mobilization of the Municipality in N-2 and N-3
Accountability and Transparency **(max: 10 points)**		

Performance Indicator	Scoring System	Evidence to be produced by Municipality / means of verification
Public consultations have been held to present progress on execution of municipal plan and budget	- If meetings held and PESOM progress report discussed: 6 points	- Document announcing and inviting for public meetings (minimum of 1) - Minutes of meetings
Grievance redress mechanism in place and functioning	- If system is in place and functioning: 4 points	- Focal point for grievances designated - Review system for addressing the grievances being actively managed (grievance forms, up to date monitoring dashboard & reporting).

ANNEX 4: Economic and Financial Analysis

COUNTRY: Mozambique
National Urban Development and Decentralization Project

A. Overview

1. The economic and financial evaluation will focus on specific investments under Subcomponent 1A that provide quantifiable financial and socio-economic gains and benefits. As such, for the performance grants, the analysis will focus on investments in local roads and solid waste management. For the institutional strengthening activities, the analysis will focus on the project's impact on increasing own-source revenues and time savings from reduced transaction costs as a result of modernization of municipal finance and land systems.

B. Methodology

2. Since the exact investments made under the performance grants to municipalities will not be known ahead of time,[16] the economic and financial analysis will use the experience from the 3CP (for US$120 million), the predecessor to the National Urban Development and Decentralization Project as a proxy. 3CP provided US$13.5 million in performance grants to 20 municipalities[17] over the course of five years to finance basic infrastructure and services, in addition to US$21.5 million in technical assistance to improve urban planning and land use management and enhance municipal revenues. These municipalities in 3CP are very similar in terms of size and capacity with the municipalities that will participate in the proposed project and therefore serve as a good reference.

3. The economic and financial analysis will analyze the impact of indicative investments in different sectors relevant for municipalities (roads and solid waste management) and do the economic analysis for these sectors. To calculate the rate of return of the project's investments, the economic and financial analysis will use a 6 percent discount rate.[18] It will use 2010 prices to account for large fluctuations in inflation and exchange rate between 2010 and 2014, to minimize the potential differences between the expected and actual costs of investments. Finally, it will conduct a sensitivity analysis to check whether the investment would still be viable if key project inputs, such as the cost of capital investment, are much higher than planned.

Institutional Strengthening

4. Institutional strengthening aspects are difficult to quantify so the economic and financial analysis will measure: (i) the financial impact of increasing own-source revenues and (ii) the economic impact of

[16] The range of possible investments in municipal infrastructure and services includes transport and accessibility (local roads, small bridges, pedestrian pathways, bus terminals, street lightening), small water systems (community wells, elevated reservoirs, household connections,), sanitation systems (improved toilets, off-network community septic tanks, household connections), small storm water drainage and erosion control systems (small drainage canals, storm water retention, slop and ravine stabilization); local markets and public spaces.
[17] Six municipalities were later added to 3CP but data on those are not included in this analysis as they joined later on and their progress in these indicators could not be compared from 2015 onwards.
[18] World Bank. OPSPQ. Discounting Costs and Benefits in Economic Analysis of World Bank Projects. May 2016

time savings from reduced transaction costs due to the modernization of municipal finance and land systems.

Own-source Revenue

5. A financial evaluation of own-source revenue collection will be conducted, examining the required increase of revenues that makes the project financially viable. The project will support the design and implementation of a municipal finance and land cadaster system in select municipalities. Because the specifications for this system are still not known, the economic and financial analysis will use some key data from the implementation of a municipal FM system in the 20 municipalities[19] benefiting from the World Bank-financed 3CP.

6. In 3CP, performance grants to municipalities were allocated each year based on performance criteria, including increase in the registered tax base for property tax (or IPRA), increase in IPRA collection, and increase in own-source revenue collection overall. Own-source revenue collection numbers from 3CP municipalities were used in the analysis. Subcomponent 1A under the proposed project is for US$45 million, in addition to US$10 million under Component 2 to support technical assistance and institutional strengthening efforts to improve municipal governance.

7. For the investments on municipal finance and land cadaster system using these assumptions, results show that if municipalities maintain the same level of own-source revenue collection as in 2017 in subsequent years, the intervention would yield a 16 percent return and net benefit of US$18.7 million over the course of ten years. Results are even better if municipalities increase their own-source revenue collection by an average of 5 percent from the 2017 levels. They show that the intervention would yield a 24 percent return and net benefit of US$41.8 million.

Table 4.1. Net Benefits and IRR

Component	Present Value of Cash-flows (US$, thousands)			
	Costs	Benefits	Net Benefits	IRR
Own-source resource increases by 5% from 2017 levels	49,116	90,916	41,800	24%
Own-source resource remains at 2017 levels	49,116	67,843	18,727	16%

8. Given that the investment costs were divided equally among the municipalities, those with lower revenue would have to increase revenues by a larger percent than those with higher revenues. This seems feasible, as the municipalities have demonstrated higher average increase in own-source revenue thus far with the existing systems. For the 20 municipalities participating in 3CP, own-source revenue increased by 46 percent , from a baseline of US$13 million in 2014 to US$19 million in 2016. Progress was much

[19] Although the National Urban Development and Decentralization Project targets different municipalities than the 3CP project (with the exception of Gaza), the average size and capacity levels of these municipalities is quite similar and can be used as a proxy to estimate the benefits.

more notable for property taxes which increased nine times from US$420,000 in 2014 to US$3.7 million in 2017.[20]

9. Sensitivity analysis shows that the higher the increase of own-source revenues the better the results. If the increase of own-source resource is 10 percent , the return will be 31 percent and expected net benefit will be about US$69.7 million. At the same time, if own-source revenue collection reverts back to 2014 levels and remains unchanged, the intervention would yield negative results.

Infrastructure Investments

10. The economic and financial analysis will focus on infrastructure investments in the following two sectors: (i) roads; and (ii) solid waste management.

Roads

11. A cost-benefit analysis was conducted on road investments. The costs will be taken from road investments that have been implemented in a sample of municipalities in the provinces that will benefit from the proposed program. It will look at the cost per kilometer as well as routine/recurrent and periodic maintenance per kilometer per year by vehicle type and road condition. The benefits will measure travel time savings from road improvements, measured as benefits from reduced travel time (costs expressed in terms of the minimum wage). Travel time can be estimated using volume of traffic and average passengers per car, using population density per km^2. It will also measure cost savings from reduced vehicle operating costs measured by greater fuel efficiency.

12. Municipalities are responsible for the maintenance of unclassified roads (trunk and other). However, this data is currently unavailable, so data from classified roads under the responsibility of the National Roads Agency will be used as a proxy. The cost-benefit analysis assumes that average travel time before the rehabilitation of classified roads under the responsibility of National Roads Administration (*Administração Nacional de Estradas*, ANE) for Xai-Xai reduced by half, from 60 min to 30 min for each 40km traveled.

13. The benefits were related to the savings of travel time, which bring savings on the value of time and reduction of vehicle operation. To estimate the benefits, the following information was used: a) daily traffic count before and after the project; b) average travel time before and after the project; c) value of time, and d) vehicle operating cost.

Daily Traffic Count

14. For the *without* project scenario, the information of daily traffic was based on figures used at appraisal per alternate route used for diverting traffic for the recently closed Bank-financed MMDP (US$50 million). Given that Xai-Xai's population is 132,884 (2017 census) or approximately 10 percent of Maputo's population, the analysis uses ten percent of the traffic count for Maputo and applies it to Xai-Xai. The traffic was counted on March 2010 according to type of vehicle. For the *with* project scenario, the figure was obtained from Maputo's Master Plan of Urban Transport conducted by Nikon Koei in March

[20] All numbers use 2010 prices, using an exchange rate of MZN 34 to US$1.

2014 and corroborated with figures from the Direction of Transportation and Traffic of the Maputo Municipal Council in August 2016 conducted at time that the implementation of traffic lights was being studied.

Table 4.2. Daily Traffic before and After the Rehabilitation of Roads in Xai-Xai

	Category of Vehicles				
	Buses	**Semi-collective**	**Light Vehicle**	**Trucks**	**Total**
After Intervention	54	702	964	113	1,833
Before Intervention (discounting by 3% annually)	47	618	848	99	1,612

15. The traffic count at time of appraisal was measured in specific points of the alternate routes. It showed that the number of vehicles per day using these routes was in the range of 1,612 and 1,833. The value of time is based on figures presented in the Master Plan of Urban Transport for Maputo, which was estimated based on the per capita GDP in Maputo city. It uses the growth rate of the per capita GDP to project the value of time up to 2035. This evaluation uses the value of time for 2012 transformed to 2010 prices. No increase was included in the evaluation, even though it will increase with the GDP growth rate. However, given the uncertainties of growth rate on the economy and the much smaller size of Xai-Xai compared to Maputo, this evaluation kept the value constant to work on the conservative side.

Table 4.3. Value of Traffic Time

	2010	**2012**	**2018**	**2020**	**2035**
Value of time (US$/hour):					
2013 Prices		0.78	1.07	1.17	2.05
2010 price (used in this evaluation)	0.65	0.65	0.65	0.65	0.65

Source: 2013 prices, from Master Plan of Urban Transport.

16. **Vehicle Operating Cost** was estimated based on figures of price of vehicle, lifetime, and distance traveled per category of vehicle. The price of gas was estimated based on fuel efficiency and price of gas at 2010 prices.

Table 4.4. Vehicle Operating Cost

	Buses	**Semi-collective**	**Light Vehicle**	**Trucks**
(US$/km):	0.38	0.29	0.21	0.22

17. **Investment costs** were estimated based on the expected annual grant allocation for Xai-Xai. It takes an average performance grant allocation for the four years in Xai-Xai and assumes that half of that amount will be invested in local roads. Based on Xai-Xai's population, if it obtains the target score in the APA, Xai-Xai is expected to receive US$1,228,137 on average per year. Routine maintenance costs according to ANE for similar size municipalities are estimated to be US$363,868 per km in 2010 prices. Total costs of the intervention using average rehabilitation costs using 2010 prices was estimated to be US$720,588 per km.

18. **Total Benefits.** The flow of benefits was estimated for 10-year period for both scenarios: with and without intervention. Incremental benefit corresponded to the difference between both scenarios.

Results show a return of 28 percent, with 8 percent corresponding to value of time saved, and 3 percent to vehicle operating costs saved.

Table 4.5. Results of the Economic Evaluation of Roads Investments in Xai-Xai

	Net Benefit (US$, thousands)	IRR (%)
Benefits Included:		
1. Value of time and vehicle operating costs	2,349	28
2. Only Value of Time Savings	135	8
3. Only Vehicle Operating Cost saved	(228)	3

19. Sensitivity analysis shows that the intervention would still show positive benefits when only one category of benefits was included. If only the value of time saved were included the intervention would yield a 8 percent return. On the other hand, if only the savings of vehicle operating cost were included, the intervention shows 3 percent return.

Solid Waste Management

20. In solid waste management, a financial evaluation will be conducted. The financial evaluation will analyze the current financial situation of solid waste management service, and whether revenues cover operating costs. It will assess how much revenue municipalities currently generate from the customers who pay for the services provided, what monthly fee is charged to households, whether this varies by income level, and whether different fees are collected for industries and hotels. Operating costs include the fee municipalities pay operators to clean streets, collect solid waste from households and businesses, and dispose solid waste at established disposal sites, but also maintenance. It will then assess what is the minimum fee required to cover operating costs per ton, and whether the municipal council's budget can cover operational benefits so that fees charged can be lower.

21. Only a few of the 22 municipalities that will be part of the proposed project have integrated solid waste management plans and their corresponding municipal postures. One of them is Quelimane, the capital city of Zambezia province with a population of 246,915 (2017 census). According to the 2012 solid waste management plan for the Quelimane Municipal Council is responsible for solid waste management service. The service is divided into four zones: Central Business District (CBD), peri-urban areas of high density, peri-urban areas of low density, and rural areas. Since 2005, a public company, provides and collects revenues for primary collection service, which includes: cleaning streets, collecting solid waste from households and businesses, and dispose solid waste at established disposal sites. EMUSA uses 6 trucks and 2 compactors to collect 40 tons a day out of the 116 tons produced in Quelimane, which is a coverage of approximately 34 percent . Solid waste is collected at production points and transported to specific collection points, where it is loaded onto tipper trucks and transported to an open landfill, located between 4 and 8 km away from the city center. The collection points consist of skip buckets, or open dump sites.

22. The service is currently not financially viable, with revenues covering just around 67 percent of operating costs. The city charges a single fee of 40 meticais per month or US$1.2 in 2010 prices for both domestic and commercial services. Revenues from tariffs in 2012 were US$28,598, of which the

municipality received US$21,448 as tariffs are collected by the national electricity agency (*Electricidade de Moçambique*), which charges up to 25 percent for administrative costs. Total expenditures per month are US$31,765. 95 percent of expenditures comprise salaries and gas and only 5 percent is allocated for maintenance of equipment.

23. If tariff collection increased from 24,308 households to at least 27,000 households a month, operational costs would be fully covered. Alternatively, if the tariff increased to 55 meticais (US$1.6) operational costs at current levels would be fully covered. Another option to consider would also be to charge a higher fee for commercial collection services, or to charge a tipping fee to dispose of solid waste at the landfill.

ANNEX 5: Maximizing Finance for Urban Development

COUNTRY: Mozambique
National Urban Development and Decentralization Project

A. Overview

1. **Subcomponent 1B: Maximizing Finance for Urban Development (US$30 million).** The MFUD subcomponent will provide funds for any of the 53 municipal councils in Mozambique that can demonstrate viable projects to could complement, attract or leverage private sector investments to improve urban infrastructure and basic service delivery in areas such as solid waste management, urban mobility, municipal markets, housing, and economic activities. Subprojects to qualify for the MFUD approach would typically include those that:

- Lead to increased sustainable private sector solutions— private finance (crowding-in) and/or;
- Private delivery—for urban infrastructure and services.

Unlocking and Complementing Private Sector Solutions

2. In this first modality, the MFUD could finance public infrastructure in urban areas which can unlock or complement private investments in private goods, but which are aligned with public policies, and that is economically, environmentally, and socially sustainable. For instance, the project funds could be used to investments to improve a municipal road (public infrastructure) which is needed to unlock a private investment in a new factory, or housing.

3. The MFUD could also provide co-financing to private delivery of urban infrastructure and services, or PPPs. In this case, the project funds could be used to finance a share of capital investments costs (CAPEX) and/or a share of operational costs (operational expenditure [OPEX]) required to attract private investments and ensure financial sustainability. For instance, the MFUD funds could be used to finance part of the infrastructure capital investment to attack private sector interest in building and operating a new municipal land fill, or municipal market, or commuter's terminal.

Technical Assistance

4. Finally, the MFUD subcomponent will also finance technical assistance to support the preparation and evaluation of MFUDs proposals, including feasibility studies and other consulting services to assist the municipalities in subproject preparation, negotiation, and operation. It is expected that the project will start by supporting municipalities that have already in their pipeline proposals that fit to the MFUD, while the project provides capacity building and technical assistance incrementally to other municipalities which could benefit from the MFUD later during project implementation. The MFUD will also prioritize projects that can contribute to reduce gender disparities and are responsive to climate change impacts. Ultimately, the MFUD will help municipalities to implement strategic investments that are much larger than the investments they can realize from their annual budget cycle, which is often necessary to secure private sector participation. As such, the MFUD will finance:

- Consultancy services to help strengthening MFUD institutional and regulatory framework;
- Municipal capacity and awareness building;
- Consulting services to help selected municipalities prepare their pipeline of MFUD subprojects, including pre-feasibility and feasibility studies;
- Consulting services to support municipalities during project tendering and negotiations;
- Consulting services and capacity building to support municipalities during project implementation and project operation.

B. Selection of Municipal MFUD Projects

5. The selection of the municipal MFUD projects will follow objective technical, transparent, and fair criteria and will be assessed on a first-come first-serviced basis by an independent review committee. The selection process will be structure in three phases: (i) concept proposal review; (ii) pre-feasibility study; and (iii) full feasibility study. There will be no unsolicited proposals from the private sector to launch projects regardless of government priorities. All proposals should come from the municipalities themselves, based on their needs, and analyzed under that prism by the PIU and its independent consultants. The PIU will receive the advice of the independent consultant, who will also advise the PIU on the process of approving the winning projects. The process will be subject to the PPP National Law and to the Municipality PPP ordinance (*postura*). All technical aspects will also to comply with the country's regulations (national and municipal) and follow international best practices.

6. Concept project proposals will be submitted by municipalities to the PIU (provincial and national) and will be assessed on a first-come, first-served basis by an independent technical review group against the merits and eligibility of the proposal, authorizing or not the municipality to hire experts with MFUD funds to prepare pre-feasibility studies. The pre-feasibility study will be submitted to the PIU (provincial and national) and will be assessed by the independent review group which will issue recommendations to reject, accept fully, or accept with conditions so the municipality can do more to the next phase of preparing full feasibility studies. Similarly, once the full feasibility studies are reviewed and approved by the independent review group, the municipality will be able to hire a transaction adviser (also with funding support from MFUD) to help attracting investors and/or closing contracts. The basic review and selection criteria are:

- Aligned with the project's objectives, fiduciary and safeguards framework;
- Aligned with the Subcomponent 1B: MFUD framework;
- Maximizes public resources for infrastructure and services areas where private sector finance is viable;
- Poverty reduction and social inclusion impact;
- Economic return;
- Strategic priority for the municipality;
- Revenue forecast and CAPEX/OPEX's estimates.
- Competitive, transparent, and fair process to attract private investors (no unsolicited proposal from the private sector will be accepted).
- Private sector solution and funding should be available before contract negotiation.

C. Laws, Regulations and Practices

7. The first PPP in the country under proper legislation was a road between Maputo and Pretoria in 1996. It required a decree (Decree 31/96, later amended by Decree 38/97). These decrees allowed room for lack of transparency, and a PPP law per se was approved in 2011 (Law 15/2011). In Mozambique, PPPs can be awarded[21] following these three forms: (i) simple bidding (for smaller projects); (ii) two-stage bidding (for larger projects); (iii) direct negotiation (in case there are no bidders in complex deals).While municipalities have also created their own PPPs regulations (*posturas*) under to overall framework of the national PPP regulations, the whole PPP sector faces challenges on different levels within GoM. Thus, it is important to reinforce the idea that a broad MFD approach to include commercial finance and other mechanisms can provide private sector investments in infrastructure, without some of the drawbacks of PPPs. The MFUD deals will follow the national law of the country on tendering and PPPs and will require that the selected municipality have a PPP regulation (*postura*) approved by its assembly. In case of mounting evidence of lack of transparency, all CAPEX and OPEX funding will be cancelled for that subproject. It is important to mention that the law itself is seen by many analysts, investors and donors, including United States Agency for International Development,[22] as a deterrent to investments, instead of an "open invitation" to private funds flocking into Mozambique. The reason is the juxtaposition and legal contradictions presented at this PPP law in view of the overall GoM legal framework. The result is seen as contributing to the current investment slowdown on the infrastructure and services sector. Some issues that came about on the PPP regulation and the original PPP law include:

(a) The price of shares sold to Mozambican investors and citizens below market;
(b) That GoM must retain at least 35 percent of yearly profits on each project. That was determined by the regulation when it is clearly a topic that requires legal (not regulatory) support to be juridically valid;
(c) Additional fiscal, financial and economic impact burden international investors, in a time of national fiscal, financial and economic frailty, which makes investors require even higher risk adjusted return on investment estimates;

Some recommendations include:

(a) Closely collaboration with private sector investors, as they are the interested parties in these PPP projects;
(b) GoM does deserve a share of the overall value created, but it must not transform this value-sharing regulation into a deal breaker It is recommended that these value sharing rules be eliminated from the PPP regulation altogether and, if at all retained, should be set at the sector level;
(c) Enhance PPP law and regulations implementation transparency, to reduce foreign and local investors risk aversion, reducing IRRs and net present values on deals;
(d) Go down to the specifics of each sector in order to enhance legal security and reduce risk;
(e) Strengthen institutional organization of PPP sector, avoiding that a given GoM's sector infights against other sectors within the administration.

[21] https://www.theigc.org/wp-content/uploads/2014/09/Fischer-Nhabinde-2012-Working-Paper1.pdf
[22] "USAID, "Estudo sobre a reforma da Lei N 15/2011 de 10 de Agosto; do Decreto N 16/2012 de 4 de Julho e do Decreto N 69/2013, de 20 de Dezembro".

8. According to the World Bank Group PPP knowledge Lab[23], Mozambique has embarked, since 1990, in over 17 projects to an amount of US$2.7 billion in MFD projects, US$2.5 billion of which are active. Amongst the largest ten deals, most are on the Energy Sector: Natural Gas (1 project, totaling US$1.2 billion in investments) and Electricity (4 projects, close to US$700 million in investment). The transport sector has 4 of the largest deals, including a road, two railways, and a port. Finally, there is one water and sewage project at US$25 million, the Águas de Moçambique (Maputo and Matola). Most of these large deals were funded by the national government, at the sovereign level.

9. Municipalities have also structured PPPs. Maputo has approved a PPP municipal regulation (*postura municipal)* and established its own PPP unit with funding from the WBG/PPIAF.[24] Maputo has launched several PPP initiatives in sectors such as solid waste management, urban mobility, markets and public spaces. MTA has undertaken initial studies and identified 5 improved landfills throughout the country which could serve the biggest municipalities. Other Examples of successful MFD initiatives in the urban sector, at the municipal level, include: (for example) Water supply in Vilankulos, which is a concession to a private operator; and b) the sanitation company EMUSA in Quelimane, which is a municipal owned sanitation company that is run in a semi-autonomous fashion.

10. Recent studies have examined the potential for MFD initiatives in the municipalities of Mozambique. While most studies focused in Maputo, but other cities are highly likely to have similar projects in different sectors, as we can see below:

(a) Transport sector – traffic control system technology improvement: This traffic improvement project relies on technology to enhance traffic flow. This kind of initiative has produced extensive results in many other cities, reducing congestion overall time and increasing mobility for all citizens both in public transportation and private vehicles. At this US$58 million size, it is a great candidate to receive 10 percent of its CAPEX from the program, allowing the government to contribute with the rest over time.

(b) Waste Management systems (WMS) – Matlemele Landfill: This landfill is already been financed by the GoM with support from the Korean Government which will benefit the municipalities of Maputo and Matola. It is an excellent example that can be replicated in the 5 improved landfills identified by MTA/FNDS and could revolutionize not only the work developed by a private investor placing waste into their final destination, but also to structure the whole waste management system benefiting several municipalities in one system. MFD projects create more value when they couple CAPEX (investment) with OPEX (services). So, a new concession with modern small trucks collecting waste through transfer systems, and larger trucks bringing waste from transfer points into the final landfill can generate value to the city. The surrounding municipalities will be able to charge higher SWM collection fees once it shows service quality level and standards improvement. These services are more than likely to be financed by municipal availability payments, but perhaps a larger share of these payments can be backed by user fees. The size of the project is US$60 million makes it a viable candidate.

[23] https://pppknowledgelab.org/countries/mozambique.
[24] https://core.ac.uk/download/pdf/43670972.pdf.

(c) Transport Sector – Maputo Bus Rapid Transit (BRT): BRTs are one important urban mobility solution in Latin America, Asian, and Africa currents that not only help to improve commuting in large urban areas, but also help to structure urban development and improve municipal finance through land value captured as Curitiba, Medellín, and many other leading cities have proven. Maputo BRT[25] was originally estimated in US$235 million to be financed by Brazil, but since this venue did not prosper, the Municipality has revised and phased the project, with an initial US$45 million invest.

[25] https://clubofmozambique.com/news/brt-scheme-slimmed-down-from-us235-to-us40-million-but-still-no-money-available-maputo/.

ANNEX 6: Municipal Action Plan for COVID-19 Response Guidelines

COUNTRY: Mozambique
Natioanl Urban Development and Decentralization Project

1. These guidelines are intended to orient and complement the actions that municipalities in Mozambique are planning or already implementing, but not in any way to duplicate or interrupt the good work that is already being done by national, provincial, district and municipal governments. The guide is a living instrument, which will be available through the internet, and constantly updated with new information and lessons learned from Mozambique, and other countries.

Objective 1: Establish a Municipal Emergency Operations Center and Continuity Plan

2. To control a pandemic outbreak requires a multidisciplinary effort to restructure municipal leadership and management for a rapid and efficient response. The creation of a Municipal Emergency Operations Center will allow the structuring of incident management in the city, based on a Municipal Action Plan for COVID-19 Response to be implemented by municipalities, with the aim of strengthening municipal emergency response capacities. This will allow for better coordination, and simplification of internal management and operation processes and communication. A Continuity Plan will allow the Municipality to plan all essential and non-essential activities and management of staff during the crisis.

Priority Actions

- Establish staff and operating conditions of the Municipal Emergency Operations Center
- Ensure the remote operation of the Municipal Administration
- Develop and approve a Municipal Continuity Plan.
- Strengthen the capacity of the most important organic units

Objective 2: Better Understanding Spread Risks in Your City

3. It is important to understand the risk of transmission in the city to inform the establishment of strategies and the making of daily tactical decisions. There needs to be a monitoring system and mapping of the areas with the highest disease spread rate, data collection, and reporting to ensure that up-to-date information on local dissemination is available. Local bodies and active actors in communities play a crucial and dynamic role in this monitoring as well as coordination with health departments in other government levels.

Priority Actions

- Identify the main sources of data on COVID-19 for your city
- Identify and strengthen COVID-19 data collection efforts by the municipality
- Analyze and map the most at-risk neighborhoods to COVID-19
- Analyze and monitor data from vulnerable or infected people in your community

Objective 3: Reduce COVID-19 Transmission

4. Preventing and reducing the transmission of COVID-19 within a community is essential to enable health facilities to be able to maintain health care and save the lives of critical cases of infection. Measures of social distancing become crucial in proportion to the exponential spread of the virus. It is important to define in advance the mechanisms that allow the practice of social of distancing, quarantine and hygiene of public spaces and communities to reduce the risk of transmission.

Priority Actions

- Implement municipal guidelines of social distancing for the community based on national guidelines and local context.
- Implement hygiene and prevention actions to be adopted by municipal services
- Monitor and evaluate the effectiveness of transmission reduction activities

Objective 4: Protecting the Most at Risk Groups

5. COVID-19 presents extreme risks for older populations and those with more complicated health problems. Attention should be paid to the needs of the most vulnerable groups of the population and to the facilities where they reside or meet. Particular attention should be provided to the residents of overcrowded informal settlements and housing. Reducing transmission between these groups through targeted support measures can help protect them and relieve pressure on health systems. Gender-based violence rates tend to increase due to the economic and social impacts.

Priority Actions

- Establish procedures to minimize spread of COVID-19 among the most vulnerable people (elderly, people with chronic diseases, and so on)
- Expand preventive care for risk groups
- Implement specific actions to protect young girls and women victims of GBV
- Create temporary shelter facilities to prevent transmission and infection of the most vulnerable groups

Objective 5: Strengthen the Health and Social Action System of the Municipality

6. It is necessary to prevent the municipal health and social protection services from being overloaded with critical cases of COVID-19, as this may lead to an increased risk of mortality represented by COVID-19. This will require expanding the capacity of municipal health and social services as the case count grows. Urgent action should also be taken to minimize the risk of transmission among health and social workers.

Priority Actions

- Strengthen the capacity of human resources and availability of safety material in the health and social assistance units of the municipality aimed at COVID-19
- Strengthen the capacity of screening and basic care of health and social assistance units

- Monitor the exposure and infection of employees of health and social assistance units in the municipality

Objective 6: Expand Communication and Community Outreach

7. Proper communication of risks and prevention measures is essential to contain the spread of COVID-19. Civil servants and local structures in communities have an obligation to accurately and transparently share information. Community engagement is essential and also depends on trusting the information obtained by its leaders. As such, risk communication should follow best practices to mobilize informed actions rather than inducing panic.

Priority Actions

- Implement communication campaigns on a regular basis to inform the local population about the actions of the municipality in response to COVID-19
- Share up-to-date information on the evolution of COVID-19 in the municipality
- Identify and empower leaders of the local community, local entrepreneurs, and grassroots organizations to inform and raise awareness of their bases.

Objective 7: Mitigate Social and Economic Impacts

8. The pandemic outbreak can cause social and economic disruption. Measures of social distancing, or mandatory quarantine, can create loss of income among the local population and difficulties for the local private sector, particularly for small and medium enterprises. The impact on the local economy will certainly lead to considerable loss of revenue for the municipality. In this sense it is important to mitigate the social and economic impacts through direct support and incentives to the local population and SMEs most affected.

Priority Actions

- Analyze the municipal fiscal and budgetary impact of COVID-19
- Secure additional resources to compensate for loss of municipal revenue and additional expenses with COVID-19
- Analyze the impact of COVID-19 on the poorest populations and support them through food aid, income support, and reintegration into the labor market
- Support small and medium-sized enterprises, as well as the informal sector in the municipality to maintain their activities
- Invest in labor-intensive urban infrastructure and municipal services